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Debt: encouraging signs from the Third World, Page 12

World news | Business summary

Channel link talks make progress

Britain and France edged a little closer to an agreement on the choice of a Channel fixed-link scheme after talks in Paris between UK Transport Secretary Nicholas Ridley and French Transport Minister Jean Auroux.

Although the two governments have yet to take a fixed position on the issue, it was clear after the talks that there was no overt clash between the two countries. There was no indication on which of the four competing schemes was being favoured by the two governments. Page 2

Franco-German pact

France and West Germany agreed to intensify political collaboration through quarterly meetings of foreign ministers.

Hanoi, US accord

US and Vietnamese delegations said they had agreed to work together to solve within two years the issue of hundreds of American servicemen missing in the Vietnam War.

Palestinians jailed

An Israeli military court sentenced eight Palestinians to prison terms ranging from 14 to 28 years for guerrilla activities in the occupied Gaza Strip.

Generals held

Afghanistan has arrested at least four generals on charges of passing information on Soviet troop movements to a leading Moslem rebel commander, Western diplomats said.

Police destroy camp

West German riot police with chainsaws forced their way into a protest camp in a Bavarian forest and began demolishing log huts blocking work on West Germany's first nuclear reprocessing plant.

Deputy premier dies

East German Deputy Premier Gerhard Weiss, 66, for 17 years the country's chief Comecon representative, died after a long illness.

Congress team bar

South Africa's prisons service said six visiting members of the US Congress could not see black leader Nelson Mandela in jail.

Two jets crash

At least four people were injured and a pilot was killed when two US Air Force F-15 fighters crashed after colliding in mid-air near the West German town of Zweibruecken.

Bonner surgery

Yelena Bonner, wife of Soviet dissident Andrei Sakharov, will undergo heart bypass surgery soon because treatment with drugs has failed to improve her condition.

S Korea reshuffle

South Korea's President Chun Doo Hwan replaced eight of his Cabinet of 22, mainly ministers with economics portfolios. Page 3

Doctors strike

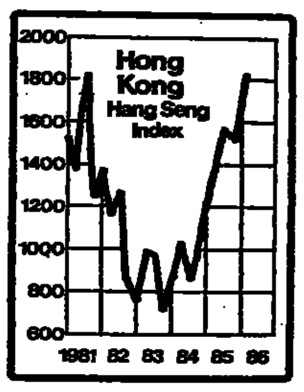
Italian hospitals provided only emergency services after about 100,000 doctors began a three-day strike for higher salaries and better status.

Rebels kill 46

Karen separatist rebels killed 46 people and wounded 136 others in an attack on a ferry boat in south-east Burma.

Hanson lifts stake in SCM to 60%

HANSON TRUST, the UK industrial holding company, bought a big block of shares in SCM, the New York conglomerate it wants to take over, bringing its stake up to about 60 per cent and putting itself in a virtually impregnable position. The purchases followed a court decision allowing it to proceed with its $928m bid. Page 15



HONG KONG stock market surged as the Hang Seng index jumped across the 1,800 threshold with a 18.94 advance to a record 1,815.53. Utilities and properties featured. Page 34

TOKYO: Prices lost more ground and the Nikkei average dropped below 13,000 for the first time since December 21 to end down 62.55 at 12,991.24. Page 34

LONDON: Equities were hit by the threat of higher short-term rates. Gilts, too, had another poor day. The FT Ordinary share index shed 6.5 at 1,135.3 and the FT-SE 100 dropped 8.9 to 1,415.2. Page 34

WALL STREET: The Dow Jones industrial average closed up 18.12 at 1,565.71. Page 34

DOLLAR was weaker in London, closing at DM 2.4405 (DM 2.4475), SFr 2.067 (SFr 2.07), FFr 7.48 (FFr 7.5) and Y201.45 (Y201.9). On Bank of England figures, the dollar's exchange rate index fell to 125.1 from 125.8. Page 27

STERLING was on the whole firmer in London, gaining 40 points against the dollar to $1.44, and also rising to SFr 2.9775 (SFr 2.9725), FFr 10.7725 (FFr 10.77) and Y290.1 (Y290.0). It was unchanged at DM 3.515. The pound's exchange rate index closed at 77.5 down from 77.9. Page 27

GOLD rose $1.50 on the London bullion market to finish at $329.75 and was also higher in Zurich at $330.20. In New York the Comex February settlement was $332.80. Page 26

DIAMONDS: World sales of rough (uncut) gems improved further in the second half of 1985. Sales for the year totalled $1.82bn, up 13 per cent. Page 26

GREEK current account deficit is likely to top $3bn for 1985, bigger than the most pessimistic projections, Dimitris Chalikias, the central bank governor said. Page 2

INDONESIAN draft budget points to a year of austerity as a result of falling world petroleum prices. Page 14

SOVIET UNION concluded a deal with Cuba allowing Havana to sell surplus Soviet oil for hard currency. Page 4

INTERNATIONAL HARVESTER, US truck manufacturer, has changed its corporate name to Navistar International. The move reflects the sale of its agricultural operations last June.

HOOGOVENS, Dutch state-owned steel group set for privatisation, has increased profits for 1985 in spite of reduced steel output. Page 16

WESSANEN, Dutch foods group, expects profits for 1985 to show a further strong increase. Page 16

ALSTHOM, diversified French heavy engineering group, is looking for foreign acquisitions and alliances to boost its export business. Page 15

Europeans raise Westland rescue offer to £75m

BY LIONEL BARBER AND BRIDGET BLOOM IN LONDON

THE FOUR-NATION European consortium headed by British Aerospace yesterday appealed directly to shareholders of Westland, Britain's only helicopter maker, to reject the rival £74m US-Italian rescue plan as a first step towards accepting their own improved £75m offer.

As the consortium unveiled its new offer in London, Mr Paul Quiles, the French Defence Minister, repeated threats that Westland was likely to be excluded from European collaborative projects if it pursued its favoured solution with Sikorsky/Fiat.

Further public support from the West German and Italian governments was likely to be forthcoming, said senior executives from Messerschmitt-Bölkow-Blohm and Agusta, two of the consortium's members. According to Mr Arnaldo Antichi, senior vice president of Agusta, Mr Bettino Craxi, the Italian Prime Minister, had expressed support for the European offer in a letter to Mrs Margaret Thatcher, the UK Prime Minister, but Downing Street could not confirm this last night.

Answering a question in London, however, Mr Antichi said that there was no question of the Italian company cancelling the collaborative EH101 project with Westland if the Sikorsky/Fiat went ahead.

Britain's Defence Secretary Michael Heseltine and Trade and Industry Minister Leon Brittan tried to lower the political temperature of their public row over the future of Westland after recent sharp exchanges. Both avoided public statements although the propaganda of both sides continued. Page 14

At the consortium's first press conference in London Sir Raymond Lygo, managing director of British Aerospace, flanked by senior aerospace executives from France, West Germany and Italy, gave support to Mr Michael Heseltine, the British Defence Secretary, who has argued strongly for closer European collaboration on defence procurement.

Sir Raymond said: "All the evidence is that it is impossible to stop a one-way street in technology transfer from the United States to Europe. It is almost impossible to achieve a fair exchange of technology."

Sir Raymond condemned the Westland board's favoured solution involving Sikorsky, the American helicopter maker and subsidiary of United Technologies, the US conglomerate, and Fiat of Italy. He suggested that the deal would in future turn Westland into "an offshore subsidiary of Sikorsky for promoting and manufacturing its products inside Europe" and would eventually lead to total domination of the European helicopter market by one company, Sikorsky.

Sir Raymond said there was no intention on the part of British Aerospace and GEC to launch a takeover bid for Westland. He also said that the consortium had not bought shares in the market, though GEC was a small shareholder in the company.

Mr Heseltine was described at a press conference in Paris by Mr Henri Matre, chairman of Aérospatiale, the French member of the consortium, as standing up for "Britain's national dignity" in the

Continued on Page 14

Heseltine's German ally, Page 2

US rules out military action against Libya

BY REGINALD DALE IN WASHINGTON

PRESIDENT Ronald Reagan has ruled out military action against Libya, at least for the time being, and will concentrate on economic and diplomatic measures in retaliation for last month's terrorist attacks on Rome and Vienna airports, US officials said yesterday.

Mr Reagan was expected to announce what officials described as "new economic sanctions" against Libya at a nationally televised news conference late last night, his first in almost four months.

It was unclear what form such sanctions would take, given that Washington has been progressively reducing its economic contacts with Libya since 1981 in protest at the country's involvement in international terrorism.

Administration officials said that while the idea of a military strike had been shelved for the moment, Mr Reagan would keep his military options open and the Sixth Fleet would be kept on patrol off North Africa. The new strategy was adopted at a meeting between Mr Reagan and his senior advisers on Monday afternoon, they said.

Other officials said that Mr Reagan would make a strong plea for worldwide condemnation of Col Muammar Gadaffi, the Libyan leader, and support from the US' Western allies for a new economic and diplomatic offensive against Libya.

West European countries, however, have made it clear that they are unwilling to follow Mr Reagan down the path of economic sanctions and have said that there is no firm evidence that Col Gadaffi was directly involved in last month's airport massacres.

The US has accused Col Gadaffi of supporting and financing terrorists led by the renegade Palestinian extremist Abu Nidal, the suspected mastermind of the attacks in which 19 people were killed.

There was considerable scepticism in Washington yesterday over how much US sanctions could achieve without allied support. US imports from Libya nearly quadrupled to $36.5m in the first 10 months of last year, but these were almost all imports of refined oil products, which Mr Reagan banned in November.

US exports to Libya totalled $258.9m in the first 10 months of 1985, sharply up from $164.6m in the same period of 1984, but were still a long way below the $813.4m reached in 1981. US imports from Libya reached a peak of $7.1bn in 1980, before the first US sanctions were introduced in 1981.

Under current US regulations, all American products destined for

Continued on Page 14

Block to quit as Reagan Agriculture Secretary

By Reginald Dale, US Editor, in Washington

MR JOHN BLOCK, one of the few remaining members of President Ronald Reagan's original cabinet, yesterday announced his resignation as US Secretary of Agriculture, with effect from the middle of next month.

Mr Block, aged 50, said that the five years in which he had held his post had been "stressful" for American farmers, but he believed that "we are starting to turn the corner."

While there have been persistent rumours that Mr Block would resign after shepherding a new five-year farm bill through Congress, the timing of yesterday's announcement came as a surprise.

Mr Block, a blunt-speaking Illinois pig farmer, told a news conference that with the signing of the farm bill by Mr Reagan on December 23, he had accomplished his primary objective. He now wanted to "look to new, exciting opportunities in the private sector," although he had made no final decisions on his future career.

The farm bill was seen by Mr Block as a stepping stone away from strict government controls on farmers towards the more market-oriented policies for which Mr Reagan has consistently called. Although the bill fell far short of Mr Block's original hopes, it provided for a lessening of federal price supports for important commodities such as wheat and maize, and of export incentives.

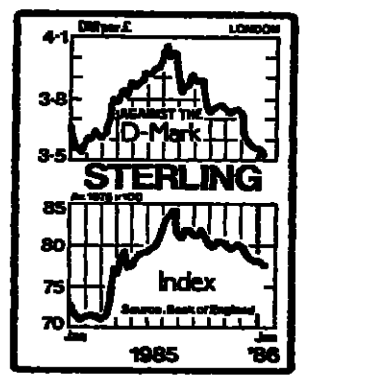
Mr Block has presided over the Agriculture Department during the biggest upheaval in US farming since the great Depression of the 1930s, with plummeting land values, declining exports and a fierce financial squeeze on thousands of individual farmers.

He has frequently been attacked in Congress over the cost of farm programmes, and by some farm groups because of the way the programmes have been run. European officials tended to see his aggressive approach to international negotiations as an obstacle to the solution of US-EEC agricultural disputes.

Asked who his successor would be, an Agriculture Department official noted that Mr Richard Lyng, former deputy Secretary of Agriculture, had been frequently mentioned in the past when rumours of Mr Block's resignation had surfaced.

Sterling fall fuels base rates fears

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT, IN LONDON



A WEAKENING pound and official figures showing a surge in UK bank credit last month triggered a further small increase in sterling interest rates yesterday, leading to speculation in London that bank base rates will rise if sterling's slide continues.

The pound, which has been under pressure since the start of the week in response to fears of lower oil prices in coming months, was being closely monitored by the authorities and there were some signs of Bank of England intervention.

Mr Nigel Lawson, the Chancellor of the Exchequer, last month made clear that he would not hesitate to raise interest rates if a weakening pound jeopardised his inflation objectives. But the official view yesterday appeared to be that it was too early to say whether higher borrowing costs were needed to defend the currency.

Sterling's fall, which has pushed it close to the record lows against the D-Mark seen in January 1985, has come despite a general weakening in the value of the dollar.

On the London money markets yesterday, interest rates rose to a level which would suggest a ½-point rise in base rates. Officials at the major clearing banks, however, said that pressure for an immediate upward move in base rates was being dampened by the ready availability of short-term funds.

The uncertainty in financial markets was heightened by figures released by the Bank of England showing that bank lending to the private sector rose by £2.1bn ($3.02bn) in December.

This was well above the average of £1.6bn seen over the previous

Continued on Page 14

Lex, Page 14; Money markets, Page 27

French AT&T plan criticised by minister

BY PAUL BETTS IN PARIS

MR LOUIS MEXANDEAU, the French Minister of Post and Telecommunications (PTT), expressed yesterday strong reservations over the proposed agreement between the nationalised CGE electronics and telecommunications group and American Telephone and Telegraph which would give the US company a 16 per cent share of the French public telephone switching market.

It was the first time Mr Mexandeau has openly criticised the proposed deal, reflecting the continuing divisions in the French administration over the agreement.

Indeed, the French minister said he was looking "sympathetically" at rival proposals being put forward by Ericsson of Sweden to gain access to the French public telephone market. However, Mr Mexandeau confirmed that the French administration would first review the AT&T proposals. No decision is expected before the general elections next March.

The French telecommunications authority is currently testing AT&T equipment and preliminary studies have shown that the US equipment would be about 20 per cent more expensive than the equipment currently supplied to the French telecoms.

Mr Mexandeau said the PTT would have to review more fully the cost aspects of the AT&T equipment as well as its adaptability to the French telecommunications network. The minister also expressed concern over the possible impact of the agreement on jobs in France; the extent of the benefits it would give to CGE in its effort to increase its US market penetration; and the risks the deal could have on France's broader efforts to develop a European telecommunications strategy.

Moreover, Mr Mexandeau said he would like to see Siemens of West

Continued on Page 14

Benedetti plan to raise record L432bn on Milan bourse

BY ALAN FRIEDMAN IN MILAN

MR CARLO DE BENEDETTI, the Olivetti chairman, who also controls a personal industrial and financial empire, yesterday announced plans to raise L432bn ($260m) on the Milan bourse.

The funds are to be raised by issuing new shares for Cofide and CIR, two of Mr de Benedetti's master holding companies, which own important stakes in Olivetti, Pirelli, Buitoni and also in publishing, banking, insurance and metals groups.

Taken together, the share issues yesterday represent one of the largest fund-raising operations in the history of the Milan stock market (the record was a L675bn issue for Fiat). What is also striking about the exercise is that in tapping the market for $260m in the first week of the new year, Mr de Benedetti is raising half as much as he did during the whole of 1985.

It also emerged yesterday that Cofide, which is Mr de Benedetti's ultimate holding vehicle, has built up a 22 per cent stake in Banca Agricola Milanese, a private bank that has been the object of a hostile takeover attempt by Banca Popolare di Milano, Italy's 14th largest bank.

Cofide has paid more than L100bn for the 22 per cent shareholding.

Mr de Benedetti said he intended to use the proceeds of the share issues both to pay for his stake in Banca Agricola and for further investment.

Mr de Benedetti's various new share issues are:

● Cofide. Fresh from having sold 25 per cent of its shares to the public in November, it is to raise L135bn by offering to shareholders 25m common shares and 25m non-voting savings shares at L2,700 a share. That compares with a nominal share price of L1,000 a share and will raise Cofide's nominal share capital from L100bn to L150bn.

● CIR. The holding vehicle, which has a controlling stake in Olivetti and is 35 per cent owned by Cofide, is to raise a total of L297bn in two operations. The first is an offer to existing shareholders of 27.4m common shares at L5,000 each, a premium of L4,000 a share. That will raise L137bn.

● The second tranche of the CIR operation is the offer of 40m non-voting savings shares at a price of L4,000 each (nominal value of L1,000), to raise L160bn. That issue will later be linked to a L160bn bond offer for Mediobanca, the Milan merchant bank.

Mr de Benedetti, who owns 68 per cent of Cofide (the Indosuez group has 7 per cent and the public 25 per cent), is clearly striking while the Milan bourse is still on its bull run. He will be taking up his own rights on this new Cofide issue.

Last year, the Milan market achieved a boom that saw the share index rise by more than 100 per cent. Mr de Benedetti himself has remarked that the arrival in the past year of new unit trusts that have poured liquidity into the market had meant that "you cannot stop demand, so the thing to do is create more supply."

On a nominal basis, the CIR issues bring the company's share capital to L204.2bn. CIR, which is controlled by Cofide, itself controls another de Benedetti vehicle – Sabaudia – which last October raised L300bn.

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EUROPEAN NEWS

UK-French choice of Channel link nearer

BY PAUL BETTS IN PARIS

BRITAIN AND FRANCE edged a little closer to choosing a Channel fixed link scheme yesterday after talks here between Mr Nicholas Ridley, the British Transport Secretary, and Mr Jean Auroux, the French Transport Minister.

It was their first meeting since British and French assessors of the competing schemes handed in their joint report to the two governments. The latter appear to be moving towards agreement. In any event, it was clear after yesterday's talks that there is no overt clash between the two countries.

Both Mr Ridley and Mr Auroux were reluctant to discuss in any detail their talks which lasted longer than expected. But they said they planned to hold another meeting soon, probably in London, to see if further progress can be achieved. Mr Auroux called the meeting "very useful" and "friendly."

Mrs Margaret Thatcher and President Francois Mitterrand meet on January 20 at Lille in northern France when they will announce the winner. There was no indication from either minister yesterday which scheme was being favoured.

In a brief statement, the two governments said yesterday they welcomed the "common wish to reach rapidly the stage of signature of the Franco-British Treaty." This will take place in the UK next month following up on the Lille announcement.

It is generally felt that Britain is leaning towards the road and rail tunnels proposed by Channel Expressway. The French have so far seemed more favourable towards the Channel Tunnel Group's twin-bore rail tunnel and the Euro-route rail and road bridge and tunnel project because both involve major French industrial and banking concerns.

Exclusive arrangement irritates Community partners

BY QUENTIN PEEL IN BRUSSELS

BRITAIN and France could come under fire from their EEC partners today and tomorrow for being too exclusive in their planning of the fixed link across the Channel. Both EEC transport ministers, and the European Commission, are expected to discuss the plans under consideration at their meetings this week, although the subject is not formally on any agenda.

An information paper has been drawn up by officials for the Commissioners, spelling out ways in which the EEC might be involved in the project.

Officials here say there is some resentment, especially in Belgium and the Netherlands, at the way in which the whole scheme has been kept exclusively between London and Paris.

The principal charge is that once a decision has been taken on the plan to be implemented, all the construction contracts will be allocated to British and French contractors in the winning consortium.

Britain and France only have an obligation to consult their Community partners once they have taken a final decision on the plan. Major EEC public sector contracts have to be advertised publicly for bidding by contractors from any member state — but the system of selecting a consortium, required to provide its own finance, seems certain to prevent open tending in the case of the Channel link.

The European Commission itself seems unlikely to take a strong position on the question, for fear of tainting its overall enthusiasm for the project. Moreover, officials recognise that if the link had been left for EEC institutions to decide, the process could have been extended for years.

The paper prepared for the Commissioners simply spells out ways in which the EEC might be involved once the particular plan is approved. Finance could come either from the European Investment Bank — although at similar market-related interest rates to other private finance — or from the European regional fund for ancillary infrastructure.

Another question raised is whether the operation of the fixed link should be exempted from Value Added Tax (VAT), putting it on a par with international shipping and aviation.

Mr Stanley Clinton Davis, the transport commissioner, is likely to raise the question of the link at today's Commission meeting in spelling out the likely subjects to be discussed by EEC transport ministers at their informal meeting in the Hague today and tomorrow.

Poland defends selective debt policy

By Christopher Bobinski in Warsaw and David Buchan in London

POLAND IS not to blame for favouring its Western commercial bank creditors over Western governments in servicing its $29bn (£20.2bn) debt, its official spokesman said yesterday.

"We want to treat the Western banks and governments equally, and if this hasn't happened, then it wasn't our fault," Mr Jerzy Urban said.

He was referring to pressure on Warsaw by Western creditor governments to give them equal treatment with the banks, after Poland missed a $550m debt interest payment to Western governments at the end of December.

By contrast, Poland has begun to repay the banks debt principal, in addition to interest.

A western government official responded yesterday that Poland's official creditors did not "blame" Warsaw for favouring bank creditors in the past. Banks had regularly signed rescheduling agreements, while for three years, between 1982 and 1984, the governments had refused as a political sanction. But now that governments had signed rescheduling accords up to and including 1985, they wanted equal treatment with banks, he said.

But Mr Urban also implied that the lack of sizeable fresh western government trade credit, exacerbating the country's acute hard currency shortage, was forcing Poland to be selective in debt repayments.

When Poland signed an agreement last July rescheduling $12bn worth of 1982-84 official debt arrears, it said new western government credit was essential if the agreement's terms were to be fulfilled.

Referring to reports that Poland had been given until March 31 to make its missed $550m payment, Mr Urban said: "It is not true that western governments have set a three-month deadline for this payment — the question of repayment has merely been postponed for three months."

He added that "Poland is in constant touch with its creditors and has never in the past and will not in the future take any unexpected steps."

The assurance came on the eve of bilateral government trade talks between Pol-nd and France in Warsaw which are being held for the first time since 1981. France has so far held out the promise of a mere FFr 150m in short- and medium-term trade credits.

The meeting comes in the wake of last month's unexpected encounter in Paris between General Wojciech Jaruzelski, the Polish military leader, and President Francois Mitterrand in a sign that both sides are also set to improve political relations which went into sharp decline after the imposition of martial law in 1981.

The French delegation is headed by Mr Jean Michel Baylet, the deputy minister at the French foreign ministry. France has declined in importance as an exporter to Poland in the past four years, losing out to West Germany and Britain.

In the first nine months of least year, overall trade turnover fell by 14.6 per cent. In this period French sales fell by 20 per cent to FFr 1.37bn while Polish exports fell by 10 per cent to FFr 2bn leaving Poland with a FFr 644m surplus, up on the FFr 520m surplus Poland achieved in the first nine months of 1984.

French high-tech groups seek to win SDI contracts

BY DAVID MARSH IN PARIS

TOP FRENCH electronics and high technology companies are stepping up efforts to win contracts under the US Strategic Defence Initiative (SDI) research programme.

Even though the French government remains opposed to the programme on strategic and political grounds, several leading French companies, including a number owned by the state, now appear to be taking a more pragmatic view over the need to develop contacts with the SDI Organisation (SDIO) in Washington.

Mr Henrie Matre, chairman of the state-owned Aerospatiale group, said yesterday that his company could work for the SDIO if "convergences" emerged between Aerospatiale's capacities and the needs of the Department of Defence.

Mr Matre reaffirmed that he remained "sceptical" about the US programme and that the US would not be dispensing "a pot of gold" among European companies. Contracts would be mainly in the range of "a million dollars," he said.

Thomson, the nationalised French defence and electronics group, has also been showing discreet interest in SDI contracts, although it has been keeping a low public profile on the subject. Thomson already has extensive contacts with US companies such as Martin Marietta in areas like sensors. It believes SDI participation would be helpful less in terms of cash flow, more to increase the group's know how in key research areas.

One factor influencing some companies' preparations is the likely return to power after general elections in March of a right wing government. Mr Jacques Chirac, leader of the neo Gaullist RPR Opposition party and widely tipped as the next Prime Minister, favours French participation in the research phases of SDI and he has attacked the negative stance of the Socialist government.

The Socialists have made clear they will not impede French companies from taking part in SDI contracts. But Mr Laurent Fabius, the Prime Minister, and Mr Paul Quiles, the Defence Minister, have recently stepped up attacks on the technological and economic feasibility of the programme.

The chairman of another top French electronics group, who asked not to be quoted, said a team from his company would be visiting Washington soon for "exploratory talks" over SDI in areas like command and control systems. "Industrialists have got the message. In Eureka (the French inspired technology collaboration programme) we pay the bill. In SDI, the US government pays. That's worth the price of an air ticket," he said.

Matra, the state controlled defence and electronics group, which was the first big company to announce interest in SDI last summer, has been discussing possible involvement in 15 different parts of the SDI programme.

Pressure on Flick over war work

By Leslie Colitt in Berlin

THE HEAD of West Germany's largest Jewish community, Mr Heinz Galinski, was yesterday joined by Chancellor Helmut Kohl's Christian Democrats and the opposition Social Democrats in calling on the Flick company to pay compensation to forced labourers who worked for it under the Nazi regime.

Mr Galinski, who leads West Berlin's Jews, claimed that more than 40,000 labourers were compelled to work for Flick without pay and under inhuman conditions. He and the Central Council of Jews in West Germany demanded that Flick, the largest family-owned industrial group in the country, pay between DM 5m and DM 8m (£1.4m and £2.3m) to the more than 1,000 survivors, both Jews and non-Jews.

Flick has refused such compensation in the past but is now to be sold to Deutsche Bank which will offer its shares to the public.

The former assistant US prosecutor at the Nuremburg war crimes trials, Mr Robert Kempner, recently wrote to the bank's chief executive, Mr Wilhelm Christians, saying that the sale of Flick to the public was a good opportunity to settle the matter of indemnification. He spoke of the "stigma of non-payment" to the surviving slave labourers whose health was severely injured. The bank chief replied that he was not in a position to comment.

The affair escalated further this week when a member of Parliament from the Bavarian wing of Mr Kohl's party said in a newspaper interview that the Jews had "neither a legal nor a moral basis for a claim." Mr Hermann Fellner said the impression was given that "Jews quickly speak out when money jingles somewhere in German tills."

Mr Galinski called this blatant anti-semitism which reminded him of an era he had thought was past. As a young man, he worked as a forced labourer for the giant chemicals concern I. G. Farben in a concentration camp.

Irish shipping company halts services

By Hugh Carnegy in Dublin

THE IRISH shipping line B + I suspended its freight and passenger services yesterday after the loss-making state-owned company lurched deeper into a dispute with the Seamen's Union of Ireland (SUI) which threatens the future of the company.

Last night, the only ferry service operating between Britain and Ireland was the Sealink route between Rosslare and Fishguard. A dispute related to that at B + I has halted Sealink's service between Dun Loughaire, near Dublin, and Holyhead.

B + I, adopting a tough stance under chief executive Mr Alex Spain, has told its 2,000 employees that it will cease operating and lay off all workers if agreement is not reached with all sections of the staff by next Tuesday on a restructuring plan involving more than 500 redundancies. The plan has been strongly opposed by the SUI and other staff groups.

The dispute over the restructuring plan, which has been simmering for some weeks, was brought back to the boil by a disagreement over plans to substitute a B + I ship on the Dun Loughaire-Holyhead route while a Sealink ferry was being refurbished.

To reverse losses which totalled more than I£10m (£8.6m) in 1984 and some I£6m last year, Mr Spain has proposed shedding about a quarter of the workforce, dropping a Pembroke-Rosslare service and contracting out catering and duty-free activities.

Peter Bruce on the Westland helicopters battle

West Germany provides an ally for Heseltine

HANS ARNT VOGELS, chairman of Messerschmitt-Boelkow-Blohm (MBB), West Germany's dominant aerospace group and its only helicopter manufacturer, has two abiding corporate passions.

He wants to cement European co-operation in high technology, especially in aviation and to transform MBB into a European version of the company he most admires, United Technologies of the US, the high-tech conglomerate led by his friend Harry Gray.

"Like UTC and what Harry Gray accomplished, we will grow in specific areas of high technology, and our future will continue to be heavily based on European co-operation," he said soon after moving to the Munich-based company at the beginning of 1983.

MBB officials claim Mr Gray tried more than once to persuade Dr Vogels to set up joint helicopter programmes with Sikorsky, a UTC subsidiary and the world's biggest helicopter producer. He was turned down every time.

"UTC's and Harry Gray's desire to co-operate in helicopters is very serious," said Dr Vogels in July 1983. "It is just that they are unrealistic at the moment. For us, Franco-German co-operation has an absolute priority. We don't just want to have a European defence industry, we also want to strengthen it."

UTC's efforts to find a way into the crowded European helicopter market through Britain's troubled Westland group have set it against a powerful West German competitor.

If the European consortium also trying to buy Westland, of which MBB is a part, fails against the UTC/Fiat bid there seems little doubt that the Germans, if not the French and Italians, would react aggressively and, politics permitting, turn their backs on the UK helicopter group.

Officials close to Dr Vogels say he is "extraordinarily" keen on winning Westland for the European consortium. That means that one of the most powerful men in West Germany, Mr Franz Josef Strauss, premier of Bavaria, is also keen. MBB, though drastically restructured since Dr Vogels became chairman, is still not its own master.

Although it is not a public company, MBB is owned by a string of banking, political and private interests, including the states of Bremen, Hamburg and Bavaria, the Bayerische Vereinsbank ond the Dresdner Bank, Krupp, Thyssen, Siemens, Bosch, the Allianz insurance giant and the families that once owned the original three groups that now make up MBB.

Through seats held on a variety of supervisory boards, and direct state holdings, Bavaria and Mr Strauss emerge as easily the most powerful interest. So dominant is Mr Strauss in MBB that he recently initiated talks with the car producer, BMW, aimed at linking up the two groups, without consulting MBB first.

MBB is West Germany's main contributor to the European Airbus consortium and its leading space and missile systems manufacturers—in competition with Dornier—it employs some 35,000 people and turned over DM 5.7bn (£1.6bn) in 1984, less than DM 1bn in helicopters.

Group net profits have risen from DM 60.1m in 1982 to close to DM 100m in 1984. But like most European aerospace companies, its finances are dependent on the public purse and its strategies often mirror the whims of politicians closest to it, in this case Mr Strauss.

The Bavarian leader is a monopolist and a subsidiser and has seen to it over the years that MBB is one of the country's largest recipients of state funds. Dr Vogels, on the other hand, has said he would like to rid himself of MBB's complicated ownership and, possibly, go public. What the two men share is a passion for European co-operation.

Even that may have pragmatic rather than emotional roots. Helicopters are the only manned aircraft that MBB makes on its own. After the Second World War the German aerospace industry was allowed by the Allies to begin operating again only in the mid-1950s. By then the costs of entry into the aircraft industry were simply too high to allow the development of large-scale, indigenous civil and military jet programmes. MBB has had to co-operate to survive in aerospace.

Given that, Mr Strauss has recently demonstrated the lengths to which he will go to defend West Germany's (or at least Bavaria's) tellitories in military technology. In 1984, Mr Michael Heseltine, the British Defence Secretary, casually suggested to his West German opposite number, Mr Manfred Woerner, that Vickers was interested in buying Krauss Maffei, producer of Germany's main battle tank, the Leopard 2.

Mr Woerner is said to have immediately called Mr Strauss, who mounted a one-man campaign to ward off the British and keep Krauss Maffei in German hands. Not surprisingly, he eventually tied up the tankmaker, also Bavarian-based, with a consortium in which he and MBB are major influences.

The carrot the Germans are holding out to Westland shareholders is a share for the British producer in the Franco-German PAH 2 anti-tank helicopter programme set up in July 1983. Some 400 helicopters, in the three versions offered under the programme, have already been ordered by the French and German military, and both MBB and Aerospatiale, the French partner, have made it clear they would welcome other partners.

"We have a programme with firm orders that the British can enter," said an MBB official yesterday. PAH 2 production is due to begin by the end of this decade. MBB and the French are also discussing the joint manufacture of a light transport helicopter for the nineties, the MH90, to replace the ageing US Bell UH19, some 4,000 of which were built and sold around the world.

There would, the MBB official said, "be no question" of Westland being able to take part in these projects if the Sikorsky bid succeeds.

Mr Woerner, for his part, would like to have the British in on the PAH 2 programme if only to help him in his battle with the French to keep costs down. Bonn and Paris agreed at the start on a cost ceiling for PAH 2 but the Germans are coming under very strong pressure to scrap it.

Bonn Defence Ministry officials say that it is always easier to agree on programmes with the French, but joint programme management can be a nightmare. While the British tend to be far more cautious about committing themselves to joint ventures, they are more reliable partners.

Moreover, Mr Wöerner and Mr Heseltine are close. According to the Defence Ministry here, the two men normally speak to each other once or twice a week. Mr Wöerner is unlikely to be indifferent to any political embarrassment suffered by his British colleague.

Herr Strauss: subsidiser.

MR CESARE ROMITI, managing director of the Fiat group, yesterday broke his silence on the Westland affair to declare the Sikorsky-Fiat offer to be "the only solution which can guarantee that Westland will become a healthy and efficient European helicopter company," writes Alan Friedman in Milan.

Speaking also for Mr Gianni Agnelli, Fiat chairman, he said that if Sikorsky and Fiat succeed in their proposal to take 29.9 per cent of Westland it would not affect "co-operation with other European companies." Westland's management had provided "ample assurances" that co-operation would continue between it and Agusta, the Italian state helicopter maker.

"There is a formal commitment to the Westland-Agusta programme," Mr Romiti added.

His statement was seen in Italy as an attempt to stress the partly European nature of the Sikorsky-Fiat offer.

EEC farm incomes down 8%

By Ivo Dawnay in Brussels

THE PRINCIPAL weapon in the farmers' battle for higher EEC guaranteed prices this year was unvelled yesterday in statistics showing a largely theoretical 8 per cent fall in average farm incomes last year.

The figures, based on an assessment of the net value added in relation to increased costs for each person employed, showed a 12 per cent fall for farmers' incomes or 8 per cent when averaged out across all those employed on the land.

A careful analysis, published yesterday by the European Commission, is certain to form the basis of farm organisations' claims for guaranteed product prices when negotiations begin with the Community in the spring.

Last year, the farmers' umbrella group, Copa, abandoned its so-called "objective method" for calculating price rises on the grounds that good harvests had improved earnings sufficiently to justify a smaller increase.

Under the objective system, the farmers could have called for increases of up to 5 per cent in 1985. Farmers' organisations now expect a claim in this region will constitute the basis of the current year's demand in order to compensate for lost income.

The farmers argue that, in painful contrast to 1984 when production boomed, last year saw costs rise while prices and output declined.

The new statistics, which apply to all member states save Greece, and new members Spain and Portugal, may cut little ice with the Commission, however. Market managers are certain to be more concerned with the rapidly escalating costs of the common agricultural policy which, on present trends, look certain to breach a spending ceiling of Ecu 20bn (£12bn).

Talks today on common shipping policies

European Community transport ministers will try to remove obstacles in the way of common shipping policies at an informal meeting in the Hague today, Reuter reports from Brussels.

Discord among member states has prevented the adoption of proposals from the European Commission for joint action against the threat of cheaper third country carriers restricting access to shipping lanes.

The proposals also envisage the removal of barriers hindering inter-Community trade and a clarification of existing rules on flags of convenience.

Shipping companies of member nations are not currently licensed to ply the domestic routes of other members, or to sail regularly between two other member countries.

Italian doctors strike

Italian hospitals provided only emergency services yesterday after about 100,000 doctors complaining they are the worst paid in Europe, began a three-day strike to demand higher salaries and a better status, Reuter reports from Rome.

The influential newspaper Corriere Della Sera newspaper said in an editorial that the doctors had a case to be answered. The strike reflected a "crisis affecting Italy's welfare state, which is falling apart day by day."

Dr Ferdinando Cornelio, a neurologist who is due to meet the health minister on behalf of the strikers next week, said Italian hospitals were inefficient because of low morale and too much paperwork. Many hospital doctors are obliged to take private patients to supplement their salaries, a trade union spokesman said.

Greece's current account deficit could top $3bn

BY ANDRIANA IERODIACONOU IN ATHENS

GREECE'S CURRENT account deficit for 1985 is likely to top $3bn, overtaking the most pessimistic official projections, according to Mr Dimitris Chalikias, the governor of the central bank.

The Government originally set a target of $1.7bn. This was abandoned last October when a special package of economic austerity measures was launched, including a 15 per cent devaluation of the drachma, designed in part to bring the balance of payments situation under control. However, until recently $2bn was considered the highest level the current account deficit would reach in 1985.

This forecast was dashed by the January-October balance of payments figures released by the Bank of Greece 10 days ago. They showed a current account deficit of $2.725bn. Import spending went up by 8.2 per cent, while export earnings fell by 4.3 per cent in the same period. The trade deficit increased from $4.493bn a year earlier to $5.22bn. Invisible earnings fell from $2.795bn to $2.595bn reflecting particularly the continued recession in shipping.

Mr Chalikias denied Greek press reports that the central bank recently warned the Economy Ministry that excessive public sector spending is jeopardising a commitment to reduce the budget deficit by 4 percentage points this year.

However he confirmed reports that Mr Evangelos Kourakos, a deputy governor at the bank who has played a key role in securing loans for Greece on the international market, wants to resign. Mr Kourakos, trained in Greece and the US, has been with the Bank of Greece since 1949. According to Greek figures the country's foreign debt at the end of 1985 stood close to $15bn.

Yugoslav legislation aims to weed out smaller banks

BY ALEKSANDAR LEBL IN BELGRADE

UP TO a third of Yugoslavia's 160 to 170 commercial banks will cease independent operation this year because they do not meet a new legal requirement that they must have a minimum of Dinars 6bn (£13m) in pooled funds of their shareholder companies and in time deposits.

Most are likely to merge with bigger banks rather than wind up completely.

The Banking Act, which came into effect on January 1 but gives banks until the end of the year to comply with its terms, is aimed at weeding out the "small fry" institutions. These were founded more to satisfy the wish of local authorities to have all the insignia of economic self-reliance than to perform any meaningful financial role.

Another of the act's objectives is to end the "territorialisation" of banks — their close identification with local politicians which is considered a bar to the free circulation of money in the country.

The law stipulates that banks must consider all requests for loans or banking services, whether they come from their own republic or not, and weigh credit applications on economic rather than local political grounds.

West German orders rise

BY RUPERT CORNWELL IN BONN

THE WEST GERMAN economy enters 1986 with all signs pointing to a continuation of the steady upswing in progress for the best part of three years.

Economics Ministry figures here show that industrial orders climbed nearly 2 per cent in November, compared with a month earlier, to stand 3.5 per cent higher in volume terms in November 1984.

Over the year, the 4.5 per cent rise in domestic orders was more than twice that of export orders, providing further evidence that home demand is taking over as the main driving force behind the economy.

Industrial output stood in October and November some 4.5 per cent above the level of the corresponding months of 1984, despite a 6.5 per cent decline in the building sector. Production of investment equipment was 9 per cent up on a year earlier.

Austrian warning on terrorists

BY PATRICK BLUM IN VIENNA

AUSTRIA issued a warning yesterday that it would consider sanctions or other actions against any state found to have provided shelter or support for the terrorists involved in the recent attack at Vienna airport.

In response to a question, Mr Leopold Gratz, the Foreign Minister, said that although Syria and Libya had both been mentioned in connection with the attacks in Vienna and Rome, there was still insufficient evidence linking the two states to the attacks.

Mr Gratz was speaking after a Cabinet meeting that discussed the implications of the attack in Vienna, which left three people dead, including one terrorist, and about 40 wounded. He said Austria would consider sanctions.

"As far as sanctions are concerned, we first have to be convinced about which state gave shelter and support to the terrorists. If we are convinced of that, we will decide autonomously on our reaction.

"It may be sanctions or some other reactions. But we do not accept the principle of friendly relations with any state of whom we are convinced that it supports terrorists of the kind that carried out this murderous attack in Vienna."

Mr Gratz also suggested that the terrorists might have had support from countries outside the Arab world. "We have many indications that other non-Arab nations support terrorism. We are following all these clues because we take this threat to international peace seriously." He would not say which countries were also under suspicion.

Fisheries compensation report

BY FAY GJESTER IN OSLO

LOSSES suffered by Norway's fishermen as a result of oil industry activities should be made good by the oil companies responsible, not from public funds.

This is the main recommendation of an officially appointed committee which, for the past five years, has been studying the conflict of interest between fisheries and offshore petroleum exploration, production and transport.

The committee, chaired by Norwegian law professor Mr Carl A. Fleischer, made its report to Mr Kåre Kristiansen, Oil Minister, late last month. If the right-centre coalition accepts its conclusions, and the Storting (Parliament) agrees, they will be incorporated in existing legislation covering the industry. This process could take a further two years.

The report, believed to be the first that any government has commissioned on this issue, says oil companies must compensate fishermen for the numerous unfavourable effects on fishing of their operations.

Examples given include damage to fish stocks caused by pollution, "exclusion zones" around oilfields which bar fishermen from traditional grounds, and damage to fishing gear caused by oil industry litter, installations or pipelines.

The committee makes no estimate of what such compensation might cost, but the fisheries directorate, advisory arm of the Fisheries Ministry, has put the likely total at about NKr 50m (£5.6m) for Norwegian shelf areas south of the 62nd parallel.

It has not studied the position north of the parallel, where there are no producing fields or pipelines.

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South Korea Cabinet ministers replaced

By Steven B. Butler in Seoul

THE PRESIDENT of South Korea, Mr Chun Doo-Hwan, yesterday replaced eight ministers in his 22-man Cabinet in a major reshuffle affecting mainly economic portfolios.

Mr Kim Mahn-Je, Minister of Finance, has been appointed to the powerful position of Deputy Prime Minister in charge of economic planning, replacing Mr Shin Byong-Hyun. The Deputy Prime Minister plays a key role in formulating Korea's economic policy. Mr Kim has been a principal architect of financial liberalisation in South Korea, and his appointment is not expected to mark any great departures in policy.

The Cabinet reshuffle had been expected for many months, and may have been delayed in an effort to show continuity at a time when South Korea's economic performance has been sluggish. South Korea's GNP is thought to have grown at less than 5 per cent last year, compared with an original target of 7.5 per cent. Exports last year totalled $30.15bn, an increase of just 3.1 per cent, which is Korea's second worst performance in more than 20 years, and 2.85bn short of the original target.

Mr Chung In-Young, director of the Office of Bank Supervision and Examination, has replaced Mr Kim as Minister of Finance. Mr Chung is a career government official.

Mr Choi Chang-Nak, governor of the Bank of Korea, has been appointed Minister of Energy and Resources, while Mr Chon Hak-Ze, director of the Korea Advanced Institute of Science and Technology, has been appointed Minister of Science and Technology.

Mr Park Sae-Jik, a retired general who has been Minister of Government Administration, will become the new Sports Minister. The outgoing minister, Mr Lee Young-Ho, had come under criticism over the handling of negotiations for broadcast rights for the 1988 Olympic Games. The final contract with NBC netted far less than had been originally expected, and a large deficit for the games is now expected.

Nine killed in three days of Sikh violence

At least nine people have been killed in gun attacks in the northern Indian state of Punjab during the past three days during a marked increase in violence by Sikh extremists, John Elliott reports from New Delhi.

The Indian Government has ordered the Punjab state government which has been run by the Sikhs Akali Dal Party since regional elections were held three months ago, to strengthen security operations against the extremists.

Mr Yitzhak Shamir

Shamir set to accept Taba deal

By Tony Walker in Jerusalem

MR YITZHAK SHAMIR, Israel's Deputy Prime Minister, appears ready to accept terms for a settlement with Egypt of the vexed Taba dispute in the Sinai.

Mr Shamir, who is also Foreign Minister, has agreed in principle with Mr Shimon Peres, the Prime Minister, that a draft package of measures to resolve the Taba issue be presented to the iner Cabinet, possibly as soon as next week.

Israel's Foreign Minister was opposed to Egyptian demands that the Taba question be settled by international arbitration, insisting instead it be dealt with by conciliation.

A compromise appears to have been struck that would allow a mix of conciliation and arbitration plus guarantees of access for the loser to Taba, a narrow strip of land on which an Israeli company has built an hotel.

Israel hung on to Taba, which measures about one square kilometer when it handed the rest of Sinai back to Egypt in 1981 under the terms of their 1979 peace treaty.

The draft package agreed by Egyptian and Israeli negotiators provides for a process of conciliation and if that fails resolution of the dispute by arbitration. Access terms for the loser would be negotiated before the conciliation and arbitration process began.

age include Egyptian agree-
Other elements of the packment to return its ambassador to Tel Aviv, withdrawn in 1982 in protest at Israel's invasion of Lebanon, and also to the implementation of various commercial and cultural arrangements frozen for the past seveal years.

● An Egyptian policeman, Mr Soliman Khater, 25, sentenced to life imprisonment for killing seven Israeli tourists in Sinai last October, was found hanged in a hospital yesterday, Cairo Defence Ministry officials said, Reuter reports.

Military prosecutors began immediate investigation.

Kurds expand area of guerrilla operations

Gwynne Roberts several times watched Kurdish guerrillas in action against government troops during his extended visit to northern Iraq. In the second of two articles he recounts one such attack and assesses its implications. His first article appeared yesterday.

THE ATTACK was to be launched against an Iraqi Army battalion known as Sutak, about 30 km south of the Turkish frontier. It began at about 5.00 pm, an hour before sunset and too late for helicopter gunships or tanks to come to the rescue.

Iraqi guards on three hilltop positions were caught lounging outside their bunkers as the initial hail of AK-47 bullets and RPG-7 anti-tank missiles began to explode around them.

In the valley below, mortar shells dropped on the base, and heavy machine-gun fire spattered parked vehicles. An ambush was laid on the tarmac road below to halt reinforcements from nearby battalion and brigade bases at Barsivay, 10 km to the west.

A pall of smoke rose above the base, and one of the shells landed alongside an Iraqi emplacement extinguishing machine-gun fire sweeping the ridge where I stood watching the assault. Throughout, the army was kept in doubt as to which was the main target—the base itself or the hilltop positions. Some 90 men were deployed to attack the Iraqi posts on the adjoining ridge and it was there the main drama began to unfold.

There was an explosion, a frenetic popping of automatic weapons, and a puff of black smoke as the first report came in over the field radio that one of the partisans had been killed. Silhouetted against the skyline, a thin line of men ran towards the first position, a squat bunker, and then minutes later raced on to the second.

Soon, the silhouettes moved to the third emplacement, and within 60 seconds, the defenders there had surrendered. Two Iraqi prisoners, their hands high above their heads, were visible on the horizon as the sun sank out of view.

We made our getaway as darkness fell. Hours later, as we headed towards a secure village, shells began to rain down on the ridge where we had stood during the attack, and red tracer bullets and parachute illuminating flares lit up the mountainside.

Seven Iraqis apparently died in the attack, and nine were injured. One Kurd was killed, and another wounded. The guerrillas were jubilant: soon, they said, the Iraqi base would be forced to withdraw. Its position was too vulnerable.

Compared with the major set-pieces in the Gulf war, such operations are, of course, minor. Yet their cumulative impact is substantial. With their forces stretched to cover the front with Iran, the Iraqis have been forced to conduct a holding operation in Kurdistan, and seem powerless to stem the Kurdish advance.

So far, the Iraqis have managed to retain a firm grip on the major towns and roads of Kurdistan during the day; at night, however, their control is far more tenuous. The Kurd forces operate with apparent impunity within a few kilometres of many towns and just a few hundred metres off the main highways. The guerrillas openly visit villages in daylight which are within sight of the roads and nearby Army posts.

Inside the towns, Kurdish clandestine units appear to be proliferating. They provide food and refuge for strike units; are a source of intelligence, weapons and even explosives, and involved in kidnappings and assassinations. Often, those involved have Government jobs and, superficially at least, are beyond reproach. They function as a fifth column, and if caught, face immediate execution.

When I visited Kurdistan four years ago, much of the travelling was done at night tucked in close to the Turkish frontier. This time, my journey was completed during the day. In contrast to 1981, the guerrillas seemed unworried by the possibility of attack by helicopter gunships. We travelled with a heavy machine gun strapped to a mule for protection.

"We know that their pilots are terrified of their machines being hit by anything larger than a Kalashnikov bullet," said one of my companions. "Gunships are no longer a problem as far as we're concerned."

Civilians have played an important part in the comeback by the Kurdish Democratic Party guerrillas. Four years ago, a desolate landscape was full of destroyed villages, but now there are thriving communities, with crops growing in the fields and animals grazing on the mountains.

Existing villages have been enlarged to cope with the new influx of families from the "protected" compounds set up by the Iraqis in 1977 near the main roads. These were designed to deny the guerrillas support from the villagers, and their inhabitants were kept under watch.

Even Kurdish areas close to the Turkish border, lands designated free-fire zones in 1976, have been repopulated. These communities now provide solid backing to the guerrillas who receive food, shelter and even military support in the form of armed militias.

The Government, however, has taken a harsh line on public services in these "sensitive" areas. Outside the town, medical clinics have been closed, along with around 800 village schools. Children from the countryside are refused access to education in the main urban centres. The guerrillas are ill-equipped to provide their own teachers as they did in 1974-75.

The Kurds' main success has come on the battlefield. In the mid-seventies, they became involved in a head-on confrontation with the Iraqi Army, and with a force of more than 100,000 men were forced to defend largely static fronts. The guerrillas now concentrate on guerrilla warfare, and have rejected Iranian attempts to involve them in massed frontal attacks.

One consequence is that the Kurds measure their fatal casualties since the Gulf war started in the hundreds—not hundreds of thousands. They do provide Iran with scouts and vital field intelligence.

Kurdish territorial gains have been far greater than those of the Iranians, who secured three footholds in Iraqi Kurdistan in 1983. But over the next 12 months, this will almost certainly change.

The Kurds will by then have cut a road half way across Kurdistan, and military supplies will take days, not weeks, to reach remote basis. The Iranians will be on hand to reinforce any Kurdish advances in this sector. The Iraqis will be forced to commit more resources to the north, and the Kurds will attempt to tighten the screw, if possible, to breaking point.

Philippine officers to fight poll fraud

By Samuel Senoren in Manila

DISSATISFIED officers in the Philippine's armed forces yesterday launched an unprecedented campaign to ensure a free and fair presidential election on February 7.

The officers, who come from the so-called Reformist Movement within the armed forces, said they would conduct a nationwide information drive against fraud and coercion. They warned that fraud would lead to widespread violence.

Their announcement was made a day after presidential candidate Mrs Corazon Aquino pledged to revamp the armed forces and retire "overstaying" generals if she assumed power.

A number of officers in the Reformist Movement, in line for promotion to general, can not move up because President Ferdinand Marcos, who is Commander-in-Chief, has retained generals who are past retirement age.

The Reformist Movement sought the retirement of about 27 generals when it emerged last year during Armed Forces Chief General Fabian Ver's trial for the murder of opposition leader Mr Benigno Aquino.

General Ver, who is past retirement, was acquitted last month.

Pretoria steps up pressure on Botswana over ANC

BY TONY ROBINSON IN JOHANNESBURG

MR PIK BOTHA, the South African Foreign Minister, yesterday increased the pressure on Botswana to take action against African National Congress (ANC) guerrillas allegedly operating from its territory.

His latest statement on the border situation came as South African police announced they had killed a suspected ANC activist near East London and found a large quantity of Soviet-made arms in the vehicle he was driving.

In a broadcast on South African radio Mr Botha yesterday warned Botswana that "if our security forces can identify targets I have no doubt they will not hesitate to take the necessary action as long as the Botswana Government does not take effective action to eliminate the menace."

This thinly veiled warning of a possible military strike in the aftermath of last Saturday's landmine explosion which killed two whites 3 km from the Botswanan frontier followed an official letter of protest sent to the Botswanan Government on Monday night.

The possibility of military action, similar to the lightning strike on alleged ANC safe houses in Gaberone, the Botswana capital last June, has alarmed western Governments.

The British Embassy in Cape Town conveyed the British Government's concern about the international repercussions of another attack on Botswana, a former British protectorate and member of the Commonwealth.

A commentary by the state-controlled radio, which reflects official thinking, yesterday dismissed such diplomatic approaches. "It would be frivolously irresponsible for any Government to yield to diplomatic and propaganda pressures when to do so could jeopardise national security," it said.

Faced with a barrage of landmine and other attacks from across its borders the radio added there was only one answer: "The Israeli answer: unyielding determination that terrorism will not be tolerated and its perpetrators will be punished wherever they are."

It was against this background that six visiting US Congressmen were yesterday refused permission to visit Mr Nelson Mandela, the jailed leader of the ANC, in Pollsmoor Prison near Cape Town.

UK backs Lagos on debt

BY MICHAEL HOLMAN

SIR GEOFFREY HOWE, the British Foreign Secretary, yesterday offered "all possible" assistance to Nigeria in its efforts to resolve its external debt problems in the course of a two-hour meeting in London with Prof Bolaji Akinyemi, the country's Foreign Minister.

The meeting, described by a Foreign Office spokesman as "friendly and businesslike," will be followed up today with a further round of talks with Sir Geoffrey, Mrs Margaret Thatcher, the Prime Minister, and Mr Leon Brittan, the Trade and Industry Secretary, as well as Treasury officials.

The spokesman said that Sir Geoffrey "welcomed and recognised the importance" of Nigeria's New Year budget, and stressed Britain's "continuing determination" to assist Nigeria "in solving problems of debt."

The Nigerian Government has said that it will seek rescheduling of its medium- and long-term debt despite the absence of an agreement with the International Monetary Fund (IMF), which is normally a precondition to such a step.

The New Year budget, however, has been seen by Western bankers as a significant step towards narrowing differences with the Fund over terms for a $2.5bn loan. Among other measures, the budget slashed the subsidy on domestic petroleum while President Ibrahim Babangida pledged the adoption of "a realistic" exchange rate policy.

AMERICAN NEWS

Volcker under pressure to drop junk bond curbs

BY WILLIAM HALL IN NEW YORK

MR PAUL VOLCKER, chairman of the US Federal Reserve Board, will face fierce pressure to drop his plans to curb the use of so-called junk bonds, high yield securities that are not rated investment grade by the credit rating agencies, at a key meeting of the Federal Reserve Board in Washington today.

Volcker: tough fight.

The Federal Reserve Board proposal to apply its regulation G margin requirement rules to debt securities issued in take-overs has been roundly criticised by the US Administration and landed Mr Volcker with one of the toughest fights in his career at the top of America's central bank.

The proposals, which are designed to limit the amount of junk bonds which can be issued to 50 per cent of the purchase price in a takeover bid, reflect the Fed's concern about the recent surge in the use of debt by corporate raiders to finance increasingly aggressive bids.

Many leading US companies, politicians and organisations such as the Business Round Table have come out in support of the Fed's proposals. They argue that junk bond financing is contributing to the "over-leveraging" of American companies and forcing managers to concentrate on producing short-term profits at the expense of longer-term objectives. Indeed, over half of the comments received by the Fed since it first announced its plans five weeks ago have supported Mr Volcker's stand.

However, the proposals have come under heavy fire from both Wall Street investment banks and the US Administration, which is concerned that the Fed's plans run counter to its belief in the operation of free markets. The Department of Justice says that it has "serious legal and policy reservations" about the Fed's proposed actions and various other US government bodies ranging from the Council of Economic Advisers and the Securities and Exchange Commission to the US Treasury, have also condemned the Fed's plans.

Mr Volcker, who faces opposition from some of his colleagues on the Federal Reserve Board, had hoped that the proposals would be in place by the end of 1985 but, because of the fierce opposition, the period available for comment was extended.

The Fed plans to take final action at today's board meeting and on Wall Street there is considerable uncertainty about the outcome of the meeting, which will have a major impact on both the future course of take-over activity in the US and on Mr Volcker's credibility in the financial markets. The controversy has bruised his reputation as one of Washington's most skilled political manoeuvrers.

The Fed Board's deliberations will be closely watched by those observers of Washington's political scene who have argued that Mr Volcker has stumbled politically by precipately injecting the Fed into the ideological minefield of government regulation of mergers, reportedly in the face of warnings from some top officials that he could expect strong challenge to his stance from the Reagan Administration.

The Federal Reserve has stressed that its plans are limited in scope and argues that its opponents have over-reacted. It plans to apply its margin requirements to one specific class of transaction. It says that it is only going to apply margin requirements where a "shell" company would have substantially no assets other than the margin stock of the company to be acquired

Stewart Fleming explains why commercial bankers are worried about losing the IMF's protection

World Bank role under Baker plan stirs controversy

THREE MONTHS of debate about how best to integrate the World Bank, the Washington-based Government-owned development bank, into the struggle to cope with the Third World debt problem have convinced commercial bankers and monetary officials that the task they face is not an easy one.

"It is the beginning of a new relationship. We have got to think it through very carefully," remarked a senior US commercial banker. "The banks are going to have to get used to a pretty messy process," said a top official at the World Bank.

Since 1982, the International Monetary Fund has been ringmaster in operating debt strategy, but the World Bank is now to join it on centre stage.

Under the revised strategy for dealing with the debt problem launched by US Treasury Secretary, Mr James Baker, in South Korea last October, commercial banks would lend an additional $20bn to some 15 developing countries over the 1986-88 period. This is not a large sum in comparison with existing loans outstanding, but an increase which would reverse the decline in bank lending of the past two years.

The World Bank (and other development banks) would be called upon to boost their lending by some $9bn to $27bn over the same period and to help developing countries put in place economic policy reforms aimed at boosting longer-term growth.

The new initiative got off to a slow start and the political momentum behind it seems to have eroded. Monday's top-level meeting of leading commercial banks and IMF and World Bank officials in Washington may have reversed this trend, helped by speculation that Ecuador might soon become the first country to agree a "Baker Plan" lending package.

'Individual cases will determine how we work together. It will not be an easy process'

But some senior bankers are warning that initial hopes that cooperation guidelines could be agreed between the World Bank, the commercial banks and the IMF under the Baker initiative are having to be set aside. "We are getting to the point where individual cases will determine (how we work together)," says one top banker.

At the heart of the problem is the contrasting rules governing the World Bank and IMF approaches, their different time scales and methods of operating and, crucially, the different ways in which they are financed, in particular the dependence of the World Bank on international capital markets.

These distinctions are being reflected in demands from some bankers for a bigger proportion of World Bank guarantees to back their lending—the IMF never provided guarantees to banks—and for explicit and legalistic cross default clauses when the World Bank and the commercial banks are lending together.

Some banks, big and small, are demanding that if they are forced to accept rescheduling of loans because a borrower cannot meet the original terms then World Bank loans should suffer the same fate.

It is easy to see why the commercial banks want what one official described as a "World Bank security blanket" wrapped around them. They are on the brink of entering a new phase of the debt problem which looks very different from the IMF-managed stage of the debt crisis between 1982 and 1985.

The IMF maintains stoutly that it is interested in promoting economic growth by engineering a rapid transformation of the current accounts of its developing country clients, over two or three years. The commercial banks could readily identify with this goal since it promises to improve quickly the prospects of their debts being fully and promptly serviced. The IMF's relatively short time-scale, rapid decision-making processes and, superficially at least, easily-monitored macro-economic conditions attached to its loans, are some of the factors which made the relationship between the IMF and the banks that much easier.

This relationship is now however being fundamentally changed. The World Bank's time scale for achieving structural changes to promote long-term economic development is not three years but 10 or 15. The conditions it attaches to its lending are both more complex and often less quantifiable than those of the IMF.

The pace of decision-making, and of disbursement of funds, at the World Bank is often much slower, and because it is not usually acting against a crisis background, its influence over the governments it deals with is diminished. The relationship is more long-term and advisory, and the programmes will not quickly necessarily make available financial resources which can be used quickly to service bank debts.

The concern among commercial banks is thus easy to understand. Peru, they say, is an example of the dilemmas they could face. The country is in effect not fully servicing its debts to commercial banks, but is still making normal payments to the World Bank and is still receiving funds under previously agreed World Bank lending programmes. "Is that

'Equal treatment on loan rescheduling would undermine World Bank programmes'

a good or a bad thing?" one commercial banker asks.

Under IMF programmes, a decision by the Fund that a country is out of compliance with a Fund programme halts IMF lending and also triggers an end to commercial bank loans.

To demands for wide-ranging World Bank guarantees for new commercial bank loans, World Bank officials retort that such a change would effectively make them World Bank loans. As for pressure for "parri passu" (equal) treatment under which two joint World Bank and commercial bank loan should both be rescheduled if they run into difficulties, the World Bank says that such a concession would undermine its role.

It would raise its cost of funds on the international capital markets and could even jeopardise its access to the markets. Moreover, the more the World Bank becomes a mirror image of private sector lenders it is in partnership with, the less is the incentive of debtor countries to borrow from it and implement the policies it recommends.

Some commercial bankers, recognising the added complexity of getting the World Bank to play a bigger role in the debt problem, argue that issues such as the scope and automatic nature of cross default clauses and the status of the World Bank as a preferred creditor may have to be fudged to create flexibility.

World Bank officials argue, as the IMF has done, that it is the quality of the bank's lending programmes which provide the real guarantee that the bankers' money will be wisely used. But, they concede, the world Bank may have to be more explicit in future about when, how and why it is suspending or delaying disbursements on a particular loan.

IMF set to back $300m Mexican quake relief loan

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT

THE International Monetary Fund is set to approve formally a $300m (£210m) earthquake relief loan for Mexico when its executive board meets on Friday.

Proceeds of the loan would go towards rebuilding the centre of Mexico City and other areas that were devastated by two earthquakes late last summer.

The IMF said at the time of its annual meeting in Seoul last October that it would look favourably on the loan. However, the $300m credit is not regarded as a key deal for Mexico that will unleash the $4bn in loans it is hoping to raise from other sources this year.

For this, Mexico still has to agree on a separate $900m standby credit fro mthe IMF that will involve stringent economic conditions. Officials hope that the 1986 budget which provides the zero growth this year will meet IMF objectives in this regard, but Mexico is still under pressure to realign its exchange rate and take steps to ward against capital flight.

The earthquake loan follows hard on the heels of the meeting last weekend between President Ronald Reagan and Miguel de la Madrid of Mexico, but IMF approval of the deal is coincidental and not part of a response to US pressure following the presidential meeting for it to help Mexico with its $96bn debt problem.

It is still unclear when Mexico and the IMF will agree on terms of their standby facility. The IMF hopes that the earthquake relief loan may smooth the political ground for the difficult economic policy decisions the standby involves.

Dental disinfectant 'kills Aids virus on equipment'

BY PAUL TAYLOR IN NEW YORK

A US company claimed yesterday that its dental disinfectant effectively kills the Acquired Immune Deficiency (Aids) virus on medical instruments and equipment.

Sporicidin, a Washington-based company with manufacturing plants in Baltimore, Maryland and Johnson City, Tennessee, said the effectiveness of its Sporicidin disinfectant against the Aids virus was confirmed by controlled studies conducted on its behalf by Bioetics Research of Rockville, Maryland. Sporicidin has already proven effective against several other viruses, including the hepatitus "B" virus, and has been approved for use in the US, Canada and most European countries.

The Aids virus is believed to be carried in body fluids like blood, saliva and tears as well as being transmitted sexually. This has caused growing concern that the current Aids epidemic could be further fuelled by the virus being transmitted on medical and dental instruments and surfaces in hospitals, operating rooms, clinics and medical and dental offices.

"Sporicidin solution provides complete disinfection, without heat, for instruments and equipment which may be used several times a day," said Dr Curtis Lynch, medical director of Sporicidin. "These instruments require safe, but rapid decontamination to prevent cross-infection from patient-to-patient." ... ...

Peru Agriculture Minister resigns over food shortages

BY DOREEN GILLESPIE IN LIMA

PERU'S Minister of Agriculture Mr Mario Barturen has resigned following widespread shortages of fresh food produce and the Government's inability to keep down food prices.

This is the second member of the team to leave the Government since President Alan Garcia took office on July 28. The Minister of Industry and Commerce Mr Oscar Atala resigned early in December when he was appointed Ambassador to Washington. Mr Atala was apparently unhappy with the Government's price freeze on industrial products.

Since August the Government has sought to combat inflation by holding the dollar exchange rate constant and freezing the price of essential goods and services, especially petrol. As a result inflation has been cut from an average rate of nearly 11 per cent a month when President Garcia took office to 3 per cent. By the end of last year, the annual inflation rate was running at 158 per cent instead of over 260 per cent as previously expected.

In December the cost of living index rose only 2.8 per cent against the previous month; but this indicates that the Government is still finding difficulty in holding down latent inflationary pressures. Shortages, especially in foodstuffs, have led to an increase in black marketing and unofficial prices.

In another move the Government has decided to intervene in the small regional bank, Banco Amazonico, based in Iquitos. Amazonico has been taken over by Banco Continental, one of the three state-owned commercial banks.

WORLD TRADE NEWS

Paul Cheeseright profiles Willy de Clercq, EEC commissioner for external relations

Community's consensus man feels the heat

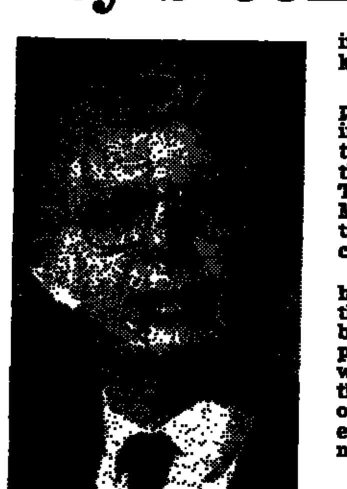
WILLY DE CLERCQ is the man in the middle, and 1986 could be the year of the uncomfortable squeeze.

He is the diplomatic spokesman of the European Community, and the negotiator on external trade. But unless he can pull the strings in the right order and at the right time, he is not the policy-maker. Eagle-eyed politicians and bureaucrats in 12 national capitals watch his every move.

For outsiders, he is the focal point of pressure the man the Americans or the Japanese will first get in touch with to iron out the problems implicit in the uneasy relationship between the world's three trade superpowers.

But Mr de Clercq lacks the power to move quickly. He does not accept that fragmentation in the Community automatically places Europe in an inferior position compared with the US or Japan, but he concedes that "We have to consult so many times about every issue that we lack the flexibility to react as quickly as is needed."

Like his fellow commissioners, he had hoped that last month's Luxembourg summit might have fashioned a new way of doing business, but admits that it didn't come up with what was hoped for. Shrugging his shoulders, however, he adds:



De Clercq: focal point

"In politics the soup is never eaten as hot as it is served."

The 59-year-old right wing Liberal with 30 years' experience in Belgian politics this year faces a commercial atmosphere charged by what Brussels sees as US trade aggression, by the problems caused by Japan's soaring trade surplus and by the Community's own propensity to upset the international agricultural markets.

In the background lurks the prospect of a new round of international trade liberalisation talks under the aegis of the General Agreement on Tariffs and Trade (Gatt). Here, Mr de Clercq finds an advantage in the Community's cumbersome diplomacy.

If progress has been made, he claims, "I think it is due to the Community, because we've been between the extreme positions — between the US which likes to overrule everything and everybody and the other extreme of blocking everything. We've defended the median position."

Certainly Mr de Clercq takes a wary view of the Reagan Administration's trade policy. In the Gatt context, he says, "We're more credible to the developing countries (who are less than enthused about a new Gatt round) than the US. We have to play the role of bridge to the US with its punching attitude. That's not the best way to convince people." Mr de Clercq is a consensus man.

His wariness is a pointer to the tensions in transatlantic trade relations already emerging. In December the Commission and a US delegation led by Mr George Shultz, the Secretary of State, held their annual meeting. A new steel trade settlement had been put in place. "Shultz was happy," recalled Mr de Clercq. "The meeting took place in a euphoric climate — a little bit too optimistic."

Relations have been jarred again by the US decision to pin down Community semi-finished steel product shipments to 600,000 tonnes. The euphoria did not last more than three weeks.

Mr de Clercq talks of the "courage of the Reagan Administration against the protectionist lobbies in Congress — we appreciate that very much." But he adds that Europe is very concerned about the US attitude on free trade. "We want a clear definition of it," he says. The US interpretation is that the others are by definition unfair, that the US is the only nation that is fair."

This is the standard Brussels line in the face of US action on imports and on subsidy programmes for its agricultural exports. "If we're not careful this could cause not only tension but a commercial war," Mr de Clercq warns. "We are confronted with the same problem."

Both the Community and the US subsidise their farm exports and both have strong farm lobbies to appease. The pot calls the kettle black and the kettle insults the pot. Insults do not fly around, however, when the US and the Community consider Japan. Although both feel the pressure of Japan's exporting strength and both are anxious to see more market opening measures in Japan, there seems little liaison across the Atlantic.

"There is no alliance with the US on Japan," points out Mr de Clercq. "The Community member states are opposed to ganging up on Japan."

In fact, the 12 find it difficult to agree on a policy towards Japan. This is an area where the Community acts slowly but not necessarily deliberately. Next month Mr de Clercq will present the Community with some concrete policy recommendations.

It is clear they will be in the middle of two extremes, tending towards broadening fields of co-operation and exerting continuous political pressure. These extremes, in the de Clercq definition, are risking commercial war and business as usual. As far as commercial war is concerned, Mr de Clerq rejects it. "Are all the states ready? No. So what do you do? You continue to keep up the pressure.

US to buy drone systems from Israel

By Lynne Richardson in Tel Aviv

THE US Navy is to buy three pilotless drone systems from Israel for nearly $26m (£18.1m) in a deal which could be worth $100m if the US Navy exercises an option to buy another six systems.

The remotely controlled pilotless miniplanes (RPV) are the result of an agreement between Tadiran, Israel's largest electronics concern, and Israel Aircraft Industries. The two companies decided in September 1984 to jointly produce the craft rather than compete with their respective Mastiff and Scout planes.

The RPV, to be called the Pioneer, is operated by a small, mobile ground-crew. It is capable of up to nine hours' flight to a height of 5 km and carries 45 kilos of sophisticated electronic and photographic equipment which can transmit video pictures to the ground from up to 180 km, taken in day or night conditions.

The drones' ability to land on a runway as short as 70 m makes it ideal for use on the US Navy's aircraft carriers.

EEC imposes duties on Saudi imports of petrochemical

BY QUENTIN PEEL IN BRUSSELS

THE EEC has re-imposed customs duties on a key petrochemical product from Saudi Arabia — linear polyethylene — for exceeding its annual duty-free ceiling, only six days after the beginning of the year.

The move underlines the surge in Saudi petrochemical exports to Europe, and seems certain to anger Riyadh in its efforts to negotiate more favourable terms for its rapidly expanding industry.

The European Commission announced the re-imposition of a 12.5 per cent duty on future shipments of the product after the current Ecu6.8m (£3.96m) ceiling was exceeded on January 3. The duties came into effect from Monday.

Only last month, the Commission announced marginal increases in the duty-free ceilings for Saudi petrochemical products granted under the Generalised System of Preferences (GSP) to encourage the manufactured exports of developing countries. The rates of duty have also been reduced above those ceilings.

A Commission spokesman said yesterday that the Saudi ceiling on linear polyethylene had been exceeded three times with the January 3 shipment ." We are simply re-imposing the duties everyone else pays," she said.

The December increases in duty-free ceilings were presented as a gesture to smooth relations with the Gulf states, especially Saudi Arabia—while making no real concession to remove the small degree of protection available to EEC petrochemical producers. It was obvious they would rapidly be exceeded.

Apart from linear polyethylene, other ceilings were set for low-density polyethylene (Ecu 14m), high-density polyethylene (Ecu 8m), methanol (Ecu 3.3m) and styrene (Ecu 3.28m),

Actual EEC imports for the first nine months of 1985 totalled Ecu 96m for polyethylenes, and Ecu 74m for methanol.

Shanghai sets up airline

THE city of Shanghai has launched its own airline with a fleet of five Boeing 707s, Reuter reports from Peking.

Shanghai Airlines will concentrate on charter and freight services to Canton and Peking before starting scheduled passenger flights in July, according to the New China News Agency.

The airline is one of several being set up in the region as part of a decentralisation programme for the national carrier, Civil Aviation Administration of China.

HK trade talks

A five-strong expert group left Hong Kong for Peking yesterday for four days of talks on Hong Kong's future trading status under the general agreement on tariffs and trade (Gatt). The group is headed by Mr Eric Ho, Hong Kong's Secretary for Trade and Industry.

W. Germany cuts crude imports from Opec

BY JONATHAN CARR IN FRANKFURT

WEST GERMANY takes little more than a half if its crude oil imports from the Organisation of Petroleum Exporting Countries (Opec), compared with more than 90 per cent a decade ago, according to preliminary figures for 1985 released yesterday by Esso AG, the West German subsidiary of the US Exxon group.

Overall crude oil imports fell last year by 3.6 per cent to 64.5m tonnes. Of that total the Opec states supplied 53.6 per cent, after delivering 55.6 per cent of the 66.9m tonnes imported in 1984.

West Germany takes about a third of its crude oil from North Sea producers, with 27 per cent coming from Britain — easily West Germany's biggest single supplier.

The next largest suppliers are Libya and Nigeria which each have shares of about 15 per cent.

Libya is also a leading Arab importer of West German (mainly industrial) products, taking goods in the first half of 1985 worth close to DM 1bn (£288m). This put Libya in fifth place after Saudi Arabia, Algeria, Egypt and Iraq as an Arab recipient of West German exports.

The Esso figures show that West Germany's overall mineral oil imports rose by 1 per cent last year to 111.8m tonnes, because of a boost of 8.1 per cent to 47.3m tonnes in imports of refined products.

About two thirds of these products come from Western Europe. Key suppliers include Holland, the Soviet Union, Britain, Belgium and Scandinavia.

Cuba to sell surplus Soviet oil for hard currency

BY LESLIE COLITT IN BERLIN

THE Soviet Union has concluded an agreement with Cuba allowing Havana to sell surplus Soviet oil for hard currency to help reduce its trade deficit with Western countries.

This appears to be a renewal of an existing arrangement. Under this the Soviet Union has encouraged Cuba to increase its energy self sufficiency by allowing the export of Soviet surplus oil for hard currency.

These sales are believed to earn Cuba some $600m in hard currency, more that hard currency earnings from sugar. The latest agreement indicates that the Soviet Union is willing to continue this arrangement indefinitely.

The agreement, according to East German radio, permits Cuba to sell "for convertible currency" whatever it does not consume of the 10m tonnes of oil it receives annually from the Soviet Union.

According to the East Germans, Cuba was reported to be producing about 800,000 tonnes of oil and might be able to boost production to 2m tonnes next year.

The East German disclosure of Cuban sales of Soviet oil was seen by a West German specialist in Comecon energy supplies as a possible justification for East Berlin's own sizeable sales of Soviet oil in the West.

Dr Jochen Bethkenhagen of the German Institute of Economic Research said East Germany in 1984 consumed about 9.6m tonnes of oil but imported 17m tonnes from the Soviet Union.

He said it exported the difference of 7.4m tonnes to the West as crude oil.

UK ships group wins Oman deal

VOSPER THORNYCROFT, the UK warshipbuilding company, has won a £40m order from Oman to build a sophiticated patrol craft, fitted with Exocet missiles, writes Andrew Fisher. This is Vosper's first order since the Government sold it back to the private sector last October.

Vosper Thornycroft has already built three of these Province Class strike craft for the Oman navy. The new order will provide work for up to 100 people for three years. Vosper, with two yards in the Southampton area, employs 3,000 people.

Vosper, formerly part of state-owned British Shipbuilders, is now owned by its managers. It is engaged in negotiations to construct three frigates for Pakistan.

This order, for which a West German yard is also in competition, could be worth £350m. Two of the ships would be built in the UK and one in Karachi.

S. Korea ends curbs on sale of electronic goods

BY STEVEN B. BUTLER IN SEOUL

THE Seoul Government has eliminated restrictions on domestic sales of industrial electronic goods produced in South Korea by foreign companies. Previously domestic sales were tied to a percentage of a company's export volume.

The lifting of the restrictions, which took effect on January 1, is designed to broaden potential markets for foreign companies and create a more attractive environment for foreign investment.

Foreign investment in South Korea has risen recently but much of it has been for hotel construction. The Government hopes that increased foreign investment will lead to technology transfer.

Restrictions on the domestic sales of consumer electronic goods will continue. Under these, after receiving approval from the Electronic Industries Association of Korea, joint venture companies with foreign ownership of more than 50 per cent may sell in the domestic market up to 100 per cent of their export volume.

Wholley-owned foreign companies may sell up to 50 per cent of their export volume of consumer electronics in the domestic market.

● Five of South Korea's eight largest trading companies have set export targets this year at a combined total of $11.5bn, a 21 per cent increase on estimates of the 1985 export performance, the AP-DJ reports from Seoul.

The Government's export projection for this year amounts to $33bn, a 10 per cent increase on last year's target.

The trading companies attributed their higher projections to the weaker dollar and stronger yen.

Hyundai hopes to be the largest exporter among them. It has set a target of $5bn, a 25 per cent increase on last year's estimate.

UK NEWS

Sedgemore threatens more City disclosures

By Kevin Brown

MR BRIAN SEDGEMORE, MP, the leading Labour Party campaigner against alleged City of London fraud, yesterday threatened a series of new disclosures about the activities of Conservative MPs and senior figures at the Lloyd's insurance market.

Mr Sedgemore, who waged a long parliamentary battle last year for an inquiry into the collapse of Johnson Matthey Bankers, said the Government would be "shocked and embarrassed" by the new allegations.

He said City fraud would be one of the major political issues in 1986 because Labour's frontbench spokesmen had "woken up" to the electoral gains to be made.

A campaign against fraud was bound to damage the Conservative Party because "it's their people who are involved," he told a meeting of members of the insurance market.

Mr Sedgemore, a barrister and the MP for the London constituency of Hackney South and Shoreditch, said the institution in which "financial skulduggery" was most likely to survive in 1986 was Lloyd's. Parliament and the public had lost confidence in the ability of Lloyd's to control itself, he said.

The majority of Lloyd's "names" (members) were honest but the institution lacked credibility and integrity, he claimed. Enormous pressure would be brought to bear in Parliament for Lloyd's to be brought within the ambit of the Financial Services Bill, which is intended to set up a new framework for the City.

Mr Sedgemore said political pressure on the Government over fraud would increase in the coming weeks as a result of an examination of the "grotesque activities" of Conservative MPs "in relation to certain happenings at Lloyd's."

Pressure would also be brought to bear on who, he alleged, figures at Lloyd's "are prepared to discriminate against names who wish to exercise their rights under the laws of England to take legal action against syndicates which they believe have defrauded them."

Mr Sedgemore said: "Neither Parliament nor the public can tolerate cynical behaviour which strikes at the root of democratic processes."

He claimed that there were also people at Lloyd's who were likely to be exposed for putting pressure on firms of solicitors not to act for those who wished to take legal action against syndicates which they believed had defrauded them.

The Prime Minister, he said, also had much to fear as the person who appointed Mr Robin Leigh-Pemberton as Governor of the Bank of England in the face of intense criticism. There would be renewed pressure for an inquiry into the Bank of England's "shameful incompetence" before and after the collapse of JMB.

Mr Sedgemore has made a number of allegations against named individuals in the City in the last few months during the course of proceedings in the House of Commons, where MPs are protected by parliamentary privilege.

● The ruling council of Lloyd's is to consider on Monday the application of Mr Ian Posgate, once a leading insurance underwriter in the market, to return to Lloyd's, John Moore writes.

Mr Posgate has been suspended from the market since last July when he was disciplined.

Stock Exchange plans tighter surveillance

BY JOHN MOORE, CITY CORRESPONDENT

THE STOCK EXCHANGE is strengthening its surveillance department in preparation for the forthcoming structural and regulatory changes in London's financial markets.

It is proposed that the staffing of the surveillance department – responsible for identifying possible abuses or breaches of exchange procedures among member firms – will be increased substantially to detect any irregularities. At present there are 26 inspectors responsible for monitoring brokers and markets and these are expected to be increased to 40.

Exchange officials plan to strengthen the resources allocated to investigations. The inspectorate, which reports on the financial state of the 200-plus firms, is grouped into five teams. The number of teams is to be expanded to eight, but the exchange envisages that the individual number of securities groups that each team follows will shrink once the full structural changes are implemented in the exchange in October.

Individual teams will be expected to track the affairs of between 20 and 25 firms instead of the 40 firms which each team at present watches as the number of securities businesses contract in the wake of mergers.

The move is designed to take into account the increasing complexity of the securities businesses now being created. New financial conglomerates are being formed which will carry out both stockbroking and stockjobbing functions.

At present the surveillance department carries out twice-yearly visits of all the market's securities firms in an effort to identify possible troubles. Financial records of the securities firms are scrutinised by an inspector from the department in an effort to identify any possible troubles.

Most of the exchange's disciplinary actions in recent years have so far been taken as a result of findings of the inspectors, rather than from outside complaints.

The stock exchange also expects that the new financial services legislation will allow the Department of Trade and Industry to appoint inspectors from exchange staff as official inspectors, with delegated powers to investigate cases of so-called "insider dealing."

Hint of jobs and pay accord

BY PHILIP BASSETT, LABOUR CORRESPONDENT

THE GOVERNMENT and the Trades Union Congress (TUC) may be in agreement to some extent on the vexed issue of the relationship between pay and demand, according to a confidential paper to be considered by today's meeting of the National Economic Development Council (NEDC).

The document, prepared by Mr John Cassells, director-general of the NEDC's secretariat, also suggests that companies' current capital stock may be insufficient to provide for future employment.

The Government has been insisting for some time on the relevance of pay to jobs, and in a note to the council today Mr Cassells says that this is no longer denied by any of the council's main groups – government, industry or the unions.

The TUC is, however, likely to object today to the interpretation that its position and the Government's may contain a measure of agreement. Given that the two sides were not discussing the question at all a year ago, any measure of agreement, no matter how small, might be significant.

Mr Nigel Lawson, the Chancellor of the Exchequer, believes that the Government's medium-term financial strategy is a guarantee against a deficiency of normal demand as much as against an excess – so a slower growth in pay rises would permit higher real demand and more output.

The TUC believes that if wage claims are to become more moderate, there must be a balance between demand and what it sees as fair pay. Mr Cassells says: "These views do not seem wholly incompatible, and, given the issue at stake, perhaps merit further discussion."

He suggests, too, that there may be scope for bringing investment planning, and the interests of the unemployed, more directly into pay bargaining. He says: "The unemployed do not sit at the bargaining table and so far little recognition of their interests has been shown by those who do."

Bus group managers seek buy-outs

BY ANDREW FISHER, TRANSPORT CORRESPONDENT

MANAGERS of about 20 subsidiaries of National Bus Company (NBC) have said they are keen to launch buy-out schemes quickly in response to the controversial proposal of Mr Nicholas Ridley, Transport Secretary, that NBC be split up for privatisation.

Under government policy each of the 60 NBC subsidiaries will be sold separately, with a preference for management or employee buy-outs.

This contrasts with the previous belief within NBC, its financial advisers, and the City of London, that the company would be sold to the private sector as one group, or in several large units, to raise about £200m. NBC accounts for about a third of the UK bus and coach market.

Mr Nicholas Ridley

The Government has asked the UK subsidiary of Bankers Trust of the US to study the feasibility of multiple buy-outs financed through loans. The NBC privatisation comes as the whole bus industry is set for deregulation by October.

Members of the NBC board are known to be disturbed at the method chosen by Mr Ridley for privatisation. One scheme worked on earlier by Barclays Merchant Bank, NBC's adviser, was a management and employee buy-out on the lines of the National Freight Consortium.

Mr Ridley stated clearly to NBC managers last month, however, that while outside bids would be invited, "you already have a head start." He said: "You have the prospect, together with your staff, of running your own companies."

Canon will not renew football sponsorship

BY NICK BUNKER

CANON (UK) has decided not to renew its three-year-old sponsorship of the Football League championship at the end of this season.

The British subsidiary of the Japanese camera and electronic equipment company has spent £3.2m on support for the championship since becoming its first commercial sponsor in May 1983.

Canon said yesterday that it had taken the decision to cease the arrangement as part of a shift towards more precise targeting of its promotional activity in Britain.

Involvement with soccer had succeeded in making Canon a household name to 80 per cent of British consumers, the company said. In return for its money – largely distributed in prizes to competing clubs – Canon was given advertising space at football grounds and in match programmes, and the championship was renamed the Canon League.

Both parties to the sponsorship deal were eager yesterday to play down suggestions that Canon's withdrawal was prompted by last year's football crowd violence and the long absence of soccer from television screens this season.

It was only in December that the Football League finally reached an agreement with the BBC and independent television companies over terms for broadcast coverage of games.

The Football League said that it was disappointed by Canon's decision, but that in some ways the sponsorship had been "the victim of its own success" by establishing the company's name so rapidly.

Canon – which stressed that "long deliberations" preceded its announcement – said that crowd violence and the lack of television exposure had played a small part in its decision.

There has been speculation that Canon would move into sponsorship of another major sport, but the company said that this was "not high on its calendar."

With eight months to go before the start of the next soccer season, the Football League is not expected to face much difficulty in gaining another sponsor. There have been approaches from several other organisations, the League said.

Shah to press for binding union deal

By Helen Hague

MR EDDIE SHAH, the newspaper entrepreneur, said yesterday that he was seeking legally binding agreements with unions which were granted recognition rights for his daily newspaper, due to start publishing in March.

The electricians' union, the EETPU, which agreed an outline no-strike single-union deal for production areas of the new paper last July, is close to reaching final agreement with Mr Shah's News (UK).

The union has no ideological objection to legally binding deals, provided they are entered into voluntarily. However, the legally binding element could prove a significant stumbling block to a deal between the company and the National Union of Journalists (NUJ).

Officials from the NUJ are due to meet Mr Shah next week to discuss a recognition deal. They will later address NUJ members who have already been recruited to staff the newspaper, entitled Today.

The journalists' union has found Mr Rupert Murdoch's demand for a legally binding deal for News International's new printing plant at Wapping, east London, unpalatable.

Mr Shah said last night: "There is no point in having agreements unless they are legally binding on both parties. We have written to the NUJ to this effect and the electricians are aware of what we are seeking."

The Shah demand for a legally binding deal differs from that made by Mr Murdoch because of the extensive consultation elements contained in the News (UK) package.

● The quality newspaper planned by former Daily Telegraph journalists yesterday announced its first six financial backers, Raymond Snoddy writes.

Apart from the founding directors, the shareholders in the new company Newspaper Publishing are: Newmarket Venture Capital, TR Technology Investment Trust, Witan Investment Company, Murray Ventures, Charterhouse Development and Framlington Capital.

The investors are together putting up £2m for the first-round financing for the newspaper, due to be launched in October. Second-round financing of between £15m and £16m in equity and loan stock will begin soon.

Imported commercial vehicles achieve record annual sales

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

A RECORD number of imported commercial vehicles were sold in the UK last year and the total passed 100,000 for the first time.

Two companies in particular contributed to the trend. Daimler-Benz (D-B), the Mercedes group of West Germany, increased its penetration of the heavy truck sector to the extent that it overtook Bedford, General Motors' British subsidiary, to win third place in the manufacturers' league table after Ford and Leyland, the state-owned BL offshoot.

D-B also made strong progress with its medium and heavy vans. But Renault of France made the most dramatic inroads in that sector, brushing past Volkswagen, which had been the leading importer for many years.

According to the Society of Motor Manufacturers and Traders, total registrations of commercial vehicles last year improved by 6.61 per cent from the 1985 level to 286,797.

Imported vehicle sales rose by 7.9 per cent to 105,112, so the importers' share of the market increased from 36.21 per cent to 36.65 per cent.

All sectors of the market improved last year compared with 1985 except for buses and coaches, which are suffering from the uncertainties associated with the Government's plans to deregulate transport services.

Total commercial vehicle sales remained nearly 9 per cent below the peak of 314,190 reached in 1979, having fallen as low as 207,915 in 1982.

In the heavy truck sector (over 3.5 tonnes gross weight), registrations increased by 5.7 per cent to 55,833 and the importers' share rose from 34.47 to 36.74 per cent.

D-B's sales increased by more than 25 per cent to 6,395 after the introduction of its new LN range in the high-volume 7.5 tonnes part of the sector.

This not only enabled the Mercedes group to move ahead of Bedford – which is beginning to suffer from a lack of new products and experienced a fall of nearly 14 per cent in heavy truck sales to 5,969 – but also had an impact on Leyland.

The BL company was hoping to make more progress in 1985 with its new Roadrunner, another 7.5 ton vehicle. Even so, Leyland's registrations still rose substantially, by nearly 15.5 per cent to 8,930.

Ford's sales advance was only 5.5 per cent to 10,075 – so its sector share slipped a fraction while Leyland's improved from 14.6 to 15.99 per cent. D-B in third place moved up from 9.6 to 11.45 per cent of the heavy truck sector.

Registrations of medium and heavy vans rose by 4.64 per cent from the 1984 level to 121,202 last year and the importers' share was pushed back slightly, from 42.6 to 42.17 per cent, in spite of Renault's substantially increased penetration.

Registrations of Renault's Trafic and Master vans jumped by another 42 per cent, or 3,046 vehicles, to 10,321, while D-B recorded a 14 per cent increase to 6,059 vans.

Sector leader Ford lost ground because it is well known that its best-selling Transit van is shortly to be replaced.

BL's Freight Rover subsidiary continued to make headway and sales of its Sherpa vans increased by more than 15 per cent.

Light van sales rose by 11.26 per cent to 93,686 and the importers' share was up from 27.39 to 27.77 per cent. Light four-wheel-drive commercial vehicles showed a 6.2 per cent increase to 13,565 of which imports accounted for 50 per cent against 47 per cent in 1984.

Five market-makers leave Bisgood group

BY JOHN MOORE, CITY CORRESPONDENT

FIVE market-makers at County Bisgood, the stockjobbing group that is merging with National Westminster Bank, are leaving to join Phillips & Drew, the stockbroker, in the latest series of personnel upheavals in London's financial community.

Those who are leaving are the first important defections since County Bisgood (formerly known as Bisgood Bishop) forged its link with National Westminster nearly two years ago.

The five who are leaving are led by Mr Richard Hine, one of 13 executive directors of County Bisgood. The others who are moving to Phillips & Drew are Mr John Lynch, Mr Timothy Grace, Mr David Marshall, and Mr Colin Grimwood. Mr Hine and Mr Lynch are to become directors of Phillips & Drew (Trading), while the other three are to be senior market-makers.

Mr Ed Puxley, chairman of County Bisgood, said yesterday, "it is most upsetting that a director has been involved in the departures." National Westminster's link with Bisgood Bishop valued the entire jobbing company at £18.64m, when it took its 29.9 per cent stake in 1984.

The directors of the firm would each have received a share of the proceeds from National Westminster in its tie-up. Mr Puxley said yesterday that Mr Hine would suffer the usual "equity penalty" following his departure in which he would not receive his full entitlement from the National Westminster deal.

Mr Bryce Cottrell, chairman of Phillips & Drew, which is merging with the Union Bank of Switzerland, said yesterday that the five would form the nucleus of its plans for developing market-making in domestic equities in the UK, with its interests in Edwards, Jones & Wilcox, which it acquired in September last year. Phillips & Drew has recruited a market-maker from stockjobber Pinchin Denny in an effort to develop its market-making activities.

Mr Cottrell declined to detail the financial remuneration that the five would be receiving but said that the packages offered were "competitive".

Maxwell to reduce cable TV marketing

MR ROBERT MAXWELL, proprietor of British Cable Service, is to reduce his commitment to cable television in 24 of the 40 towns where he owns a cable network, Raymond Snoddy writes.

The decision has been taken to concentrate marketing efforts on towns which are seen as the best long-term prospects.

In 24 areas, such as Plymouth, Newcastle-upon-Tyne, Hartlepool and Exeter, active selling of cable television is to stop.

As a result the size of the salesforce at British Cable Services is being cut from 130 to 100. The company now has about 75,000 subscribers in all, after falling below 70,000 last year, and about two thirds of those are concentrated in the 16 most successful networks.

The more successful areas for cable include Bristol, Hastings, Nottingham, Oxford, Reading and Southampton.

Mr Chris Medd, managing director of British Cable Services, says the 16 are the ones most suitable for upgrading in future to provide interactive, two-way services such as home shopping and banking.

Mr Maxwell, who is also publisher of Mirror Group Newspapers, has spent about £1m to lease a satellite channel for a further 12 months for Mirror Vision, its feature film channel. The signing of the lease is an indication of Mr Maxwell's continued commitment to the channel.

□ RECEIVERS of the Gomba group, one of Johnson Matthey Bankers' (JMB), largest debtors, have exchanged contracts on the sale of two London theatres that form part of the group's assets. Mr Mark Homan, one of the receivers, said the prospective buyer of the Duchess and Garrick theatres was Stoll Moss Theatres. The company owns eight London theatres including the London Palladium, Her Majesty's and the Theatre Royal Drury Lane.

The Gomba group of companies, founded by Mr Abdul Shamji, has been in receivership since October, when JMB sent in the accountants Price Waterhouse in an attempt to recover debts of about £21m.

□ INDUSTRY was facing continuing, and in some cases increasing shortages of skilled workers across a widening range of jobs, according to a report prepared by officials of the Manpower Services Commission, the body that administers the Government's employment and training schemes.

The report says that various indicators point to skill shortages not only in the new advanced technology areas of engineering and electronics, but also in a number of service sectors on which the Government's hopes of economic growth are pinned. In new technology areas such as electronics and software, research indicates growing shortages at all levels of the engineering industry.

□ TEACHING unions agreed to the intervention of Acas, the conciliation service, in the 11-month-old pay dispute in England and Wales. After meeting both sides Acas officials will decide whether there is scope for full conciliation.

Balancing creativity with certainty

JUDGES WITH a promise of greatness are so rare that one does not know whether to rejoice over the appointment of the present Lord Justices Ackner, Goff and Oliver to the Judicial Committee of the House of Lords or rather regret that the Court of Appeal will be deprived of their services.

They are replacing Lords Scarman and Roskill, who are retiring, and Lord Diplock, who died last year. In their turn, they will be replaced on the Court of Appeal by Mr Justice Nicholls, Mr Justice Stocker and Mr Justice Woolf.

At the back of such hesitation is, of course, the uncertainty about the relative importance of the two courts. For the overwhelming bulk of litigation, the Court of Appeal is the more important. Its case load runs into thousands. It is on the spot, able to review a morning judgment in the afternoon of the same day, if urgency or political importance demands such swift treatment. It creates precedental decisions binding on lower courts and, regrettably, also on itself. It is the workhorse of the English legal system. One could not do without it.

The House of Lords, by contrast, deals with not more than 100-150 cases each year. It is supreme in that it can overrule not only all inferior courts but also its own previous decisions. That should enable it to be creative and innovative. One could expect the Law Lords to be above the minutiae of arcane jurisprudence and to put human and business reality first with a robust gusto and creativity for which Lords Reid, Denning, Diplock and Scarman provided a model. Unless the Law Lords are consistently creative in that way, one could do without them and leave the updating of law to Parliament.

A. H. Hermann, Legal Correspondent, says the appointment of three new Law Lords could mark the end of an era characterised by a greater emphasis on the letter of the law and on precedent

Measured by that yardstick, the new appointments to the House of Lords inspire certain hope without allaying all doubts about the future of this supreme tribunal. The three new Law Lords are jurists of such accomplishment that they can well afford to leave the technicalities behind them and apply their minds to the underlying issues.

Lord Justice Oliver has clearly demonstrated in his report on the reorganisation of the Chancery Division that he has the necessary courage. The House of Lords has been increasingly concerned with the methods of the inferior courts and their simplification and acceleration. One would hope that Lord Oliver will be able to contribute outstandingly in that field.

Throughout his legal career, as counsel and as judge, Lord Justice Ackner has had ample opportunities to show that he has the courage of his convictions. He supported Lord Denning in some of his more politically sensitive innovations, but he did not hesitate to pull him back when he felt that the expansion of Mareva jurisdiction threatened to create havoc with the insolvency law.

In a recent judgment *(in Antaios)* he dissented from the majority of the Court of Appeal which, with the subsequent approval of the House of Lords, decided in favour of the finality of arbitral decisions.

Lord Justice Ackner in this case preferred the clarification of certain legal points which, although fascinating for a lawyer, will hardly ever enter into the awareness of the businessman. As a Law Lord, one would hope he will give greater weight to the practical aspects of litigation.

Lord Justice Goff is one of the rare academics turned judge. Like Lord Justice Oliver, he is greatly esteemed not only for his personal and intellectual qualities but also for making judgements lucid and short. Of the three new Law Lords, he has the greatest experience of commercial cases, having served as the senior judge of the Commercial Court before his elevation to the Court of Appeal.

On many occasions one could see him as balancing Denning's creativity by a meticulous observation of the letter of the law and of precedent, although at least in one case since Denning's departure, in *Leigh and Sillavan Ltd v Aliakmon*, he seemed to step into Denning's shoes by extending the liability for economic loss.

The new appointments might mark the end of the post-Denning era, characterised by a greater emphasis on the letter of the law and on precedent. One would hope that, freed from the need to compensate for what they considered to be excessive creativity of the former Master of the Rolls, (president of the civil division of the Court of Appeal) the Law Lords will now be able to become more creative themselves.

UK NEWS

WEAK OIL PRICES OVERHANG BUDGET STRATEGY TALKS

Ministers assess scope for tax cuts

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

MR NIGEL LAWSON, Chancellor of the Exchequer, and other Treasury ministers are assessing the impact of falling oil prices on the scope for tax cuts in his March budget.

In two days of talks this weekend the ministers will also review next year's public borrowing plans and how the remaining room for tax cuts should be allocated.

Treasury officials insist that no firm decisions will be taken at the meeting, but with the budget expected in early March the talks will provide the framework for the more detailed planning over the next two months.

Other measures likely to be discussed include whether to abolish the remaining stamp duty on share transactions. The duty was reduced from 2 to 1 per cent in the 1984 budget. A recent Bank of England report underlined the beneficial impact on private share ownership.

The backdrop to the meeting is not the most auspicious. Concern over a further weakening in oil prices has pushed sterling down to record lows against the D-Mark and provoked concern in financial markets about a possible rise in interest rates.

The drop in expected revenues from the North Sea has also significantly reduced the scope for possible tax cuts.

The Government's medium-term strategy envisaged tax cuts of £3.5bn this year, but many City of London analysts believe that that figure has already been reduced to less than £2bn. Ministers will also have to consider whether the envisaged borrowing target of £7.5bn for 1986-87 should be reduced to take account of its increased privatisation programme.

Mr Lawson's advisers appear to believe that there is a strong case for lower borrowing to offset an extra £2.5bn of asset sales but there is also a countervailing argument that borrowing might be increased to take account of lower oil revenues.

Officials in Whitehall insist that no decision has yet been made on whether the available cash should be used to raise the thresholds at which income tax becomes payable, or to cut the basic rate from the present 30 per cent.

● The Treasury is planning to publish its public spending White Paper (policy document) on January 15. It will show the same overall spending limits as shown in last November's Autumn Statement, but will include for the first time detailed limits for departments' running costs.

Tobacco curbs pledged

By Kevin Brown

A FUTURE Labour government would ban sponsorship of sporting events by tobacco companies and all advertising of tobacco products except at the point of sale, Mr Frank Dobson, the opposition spokesman on health, said yesterday.

Mr Dobson, speaking at a conference on the politics of tobacco organised by the British Medical Association, said the Government was inhibited by commercial pressures from acting against an epidemic which was killing 100,000 people a year.

He said it was inconsistent of the Sports Council and the governing bodies of individual sports to link sporting exercise and health in pursuit of public subsidies while also seeking sponsorship by tobacco companies.

"As there seems little prospect of them acting responsibly and consistently, the next Labour government will prohibit the sponsorship of sporting events by tobacco companies," he said.

Mr Dobson said that in the meantime the BBC should stop televising sporting events sponsored by tobacco companies. He said it was hypocritical for the corporation to oppose advertising on BBC television while providing the cigarette companies with hundreds of hours of free publicity in the guise of snooker and cricket coverage.

The MP said a ban on tobacco advertising except at the point of sale was essential to prevent advertisers from appealing to young people.

"Tobacco has no future unless it can capture new, young smokers. After all, it is killing 100,000 of its existing market each year. It has to recruit young people just to stand still. Whatever the tobacco promoters may say in public, their advertising is aimed at getting new smokers," he said.

Mr Dobson said the Government should strengthen the health warning on tobacco products.

UK leads opposition to draft directive on parental leave

BY JOHN LLOYD, INDUSTRIAL EDITOR

THE ISSUE of statutory time off for parental and family reasons is, of all the draft directives now being prepared in the European Commission, the one most likely to come up for decision during the next six months of the Dutch presidency of the EEC.

Last month, Mr Kenneth Clarke, the UK Paymaster General, left his fellow EEC employment ministers in no doubt that the UK Government was strongly against any such provision. He and his colleagues might have to repeat their opposition in the months ahead.

The draft directive has now completed all of its drafting and technical stages and awaits only political decisions.

It grants leave to all parents, to be taken before the child reaches the age of two. It stipulates a minimum three-month leave period per employee per child, thus giving a couple six months in all (they are not allowed to take simultaneous leave). It lays down that where allowances are paid they should be made from public funds.

Some of the leave provisions in the main EEC member states, including that of the present EEC presidency holder, are shown in the table. In all cases, collective agreements can supplement the statutory rights. In the UK, where no rights exist in law, employees are often in practice able to take substantial leave for parental or other family reasons either by a collective agreement or by managerial discretion.

The variation is substantial – although in recent years the Mediterranean countries have been following the trend by introducing statutory requirements

If implemented – and other countries besides the UK have doubts, although none has expressed them so forcefully – the directive would force the UK, Ireland and the Netherlands to change current practice substantially.

TIME OFF FOR PARENTS IN EEC

France: Leave guaranteed by law. It can be taken either as unpaid leave or half-time leave up to a maximum of two years. It applies to public and private sectors but companies with fewer than 100 employees can refuse on certain conditions. Time off for family reasons is guaranteed after three months' service.

Each worker is entitled to two days off for the death of a spouse or child; one day off for death of parent or sibling; one day off for wedding of son/daughter; four days off for own wedding.

West Germany: No statutory rights in private sector, but public sector allows three years of unpaid leave. Article 616 of the Civil Code allows workers leave for "insubstantial periods of time" for family reasons. A man or woman can take up to five days off a year with sick pay to look after an ill child.

Italy: Parental leave guaranteed under a law of December 1971 (mothers) and December 1977 (fathers). Either may take up to six months during first year of a child's life, receiving 30 per cent of pay from social security. Rights apply to public and private sectors. Most employees are entitled to 10 to 30 days when they marry.

Netherlands: No statutory rights to parental leave but Civil Code allows one day's paid leave for family obligations, two days for the birth of a child and four days for a family death.

UK: No statutory rights to parental leave or leave for any family reason, but most agreements allow special leave and it is granted at managerial discretion.

Source: European Industrial Relations Review

Thatcher holds crime seminar

BY KEVIN BROWN

MORE THAN 50 leading public figures will meet in London today for a seminar chaired by Mrs Margaret Thatcher, the Prime Minister, as part of a government campaign against crime.

The seminar is intended to explore new ways of tackling violence, burglary, crime in the work place, and theft from vehicles. A separate session on drug abuse is to be held next week.

In a statement yesterday Mrs Thatcher said the Government had already strengthened the law and the criminal justice system and would not hesitate to take whatever further action was required.

She said the Public Order Bill, which will have its second reading in the House of Commons on Monday, reflected the Goverment's determination to see that crime did not pay, but the court and police required the close co-operation of the community.

Mrs Thatcher is expected to be joined at the seminar at her Downing Street residence by five Cabinet ministers, including Mr Douglas Hurd, the Home Secretary. Other participants will include Sir Terence Beckett, director general of the Confederation of British Industry (CBI), Mr Norman Willis, general secretary of the Trades Union Congress (TUC), Sir Kenneth Newman, the Metropolitan Police Commissioner, and the chairman of the local government associations.

● The Government would make a statement in the House of Commons next week on Lord Roskill's report on the use of jury trials in fraud cases, which is expected to be published on Friday, Mr Hurd said yesterday.

DEC plans to employ 900 extra workers

By Jason Crisp

DIGITAL Equipment (DEC), the world's second largest computer company, said yesterday it expected to create 900 jobs in the UK this year, including 400 at its Scottish microchip plant announced last August.

The new jobs were announced as Mr Leon Brittan, Trade and Industry Secretary, officially opened DEC's £35m research and development centre in Reading, Berkshire.

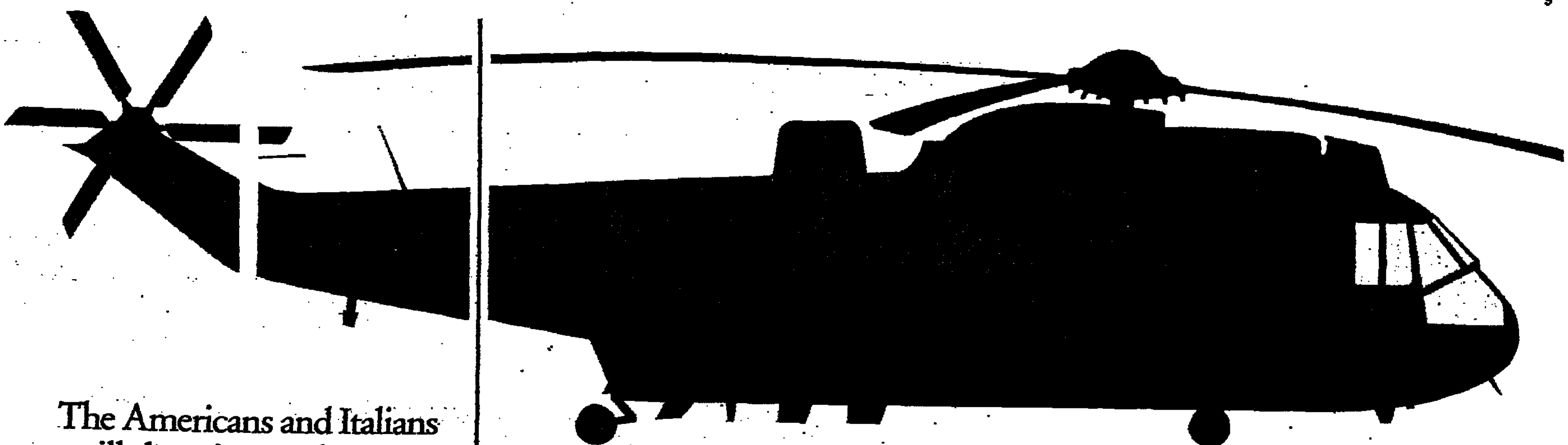
The company said it was to spend £22m on a distribution and warehouse network in the UK.

DEC employs 4,600 people in the UK, Mr Geoff Shingles, managing director of DEC UK, said yesterday: "We have found Britain is an excellent base from the viewpoint of skills, inventiveness and technical expertise. That is why we have invested heavily here and this new centre reaffirms our presence."

BASE LENDING RATES

ABN Bank	11½%	■ Guinness Mahon	11½%
Allied Dunbar & Co.	11½%	■ Hambros Bank	11½%
Allied Irish Bank	11½%	Heritable & Gen. Trust	11½%
American Express Bk.	11½%	■ Hill Samuel	§11½%
Amro Bank	11½%	C. Hoare & Co.	11½%
Henry Ansbacher	11½%	Hongkong & Shanghai	11½%
Associates Cap. Corp.	12 %	Johnson Matthey Bkrs.	11½%
Banco de Bilbao	11½%	Knowsley & Co. Ltd.	12 %
Bank Hapoalim	11½%	Lloyds Bank	11½%
Bank Leumi (UK)	11½%	Edward Manson & Co.	12½%
BCCI	11½%	Meghraj & Sons Ltd.	11½%
Bank of Ireland	11½%	Midland Bank	11½%
Bank of Cyprus	11½%	■ Morgan Grenfell	11½%
Bank of India	11½%	Mount Credit Corp. Ltd.	11½%
Bank of Scotland	11½%	National Bk. of Kuwait	11½%
Banque Belge Ltd.	11½%	National Giro Bank	11½%
Barclays Bank	11½%	National Westminster	11½%
Beneficial Trust Ltd.	12½%	Northern Bank Ltd.	11½%
Brit. Bank of Mid. East	11½%	Norwich Gen. Trust	11½%
■ Brown Shipley	11½%	People's Trust	12½%
CL Bank Nederland	11½%	PK Finans. Intl. (UK)	12 %
Canada Permanent	11½%	Provincial Trust Ltd.	12½%
Cayzer Ltd.	11½%	R. Raphael & Sons	11½%
Cedar Holdings	12 %	Roxburghe Guarantee	12 %
■ Charterhouse Japhet	11½%	Royal Bank of Scotland	11½%
Citibank NA	11½%	Royal Trust Co. Canada	11½%
Citibank Savings	¶12½%	Standard Chartered	‖11½%
City Merchants Bank	11½%	TCB	11½%
Clydesdale Bank	11½%	Trustee Savings Bank	11½%
C. E. Coates & Co. Ltd.	12 %	United Bank of Kuwait	11½%
Comm. Bk. N. East	11½%	United Mizrahi Bank	11½%
Consolidated Credits	11½%	Westpac Banking Corp.	11½%
Continental Trust Ltd.	11½%	Whiteaway Laidlaw	12 %
Co-operative Bank	*11½%	Yorkshire Bank	11½%
The Cyprus Popular Bk.	*11½%		
Duncan Lawrie	11½%		
E. T. Trust	12 %		
Exeter Trust Ltd.	12 %		
Financial & Gen. Sec.	11½%		
First Nat. Fin. Corp.	12½%		
First Nat. Sec. Ltd.	12½%		
■ Robert Fleming & Co.	11½%		
Robert Fraser & Ptrs.	12½%		
Grindlays Bank	‡11½%		

■ Members of the Accepting Houses Committee.
* 7-day deposits 8.00%. 1-month 8.50%. Top Tier—£2,500+ at 3 months notice 11.25%. At call when £10,000+ remains deposited.
‡ Call deposits £1,000 and over 8.00% gross.
¶ 21-day deposits over £1,000 9.25%.
‖ Mortgage base rate.
§ Demand dep. 8%. Mortgage 13%.



The Americans and Italians will share just under 30%.

The other Westland shareholders will own more than 70%.

So who'll be at the controls?

The short answer is, we will.

If you vote in favour of the new proposals from Sikorsky (a division of UTC) and Fiat, as your Board urges you to do, Westland will remain an independent British company.

Free to develop, design and build helicopters in Britain.

Sikorsky and Fiat will become valued and trusted partners, but only minority shareholders.

Together they'll own no more than 29.9%, and this could drop to 21%.

Thriving, independent companies themselves, they are backing Westland's long-term prosperity.

We are convinced that their proposals, though similar in financial terms to those of the European consortium, are better for our company, our shareholders and our workforce.

In view of the vast amount of public comment, we would like to give you our main reasons once again.

A tried and tested partnership.

As you probably know we have, in fact, been working successfully with Sikorsky for a long while.

Over the last thirty-eight years we have built the Dragonfly, Whirlwind, Wessex and Sea King helicopters under licence from them.

Often, as they have been kind enough to admit, improving them.

(We're proud to say, our version of the Sea King outsells theirs in export markets.)

We get on well together, we know each other and we build very good machines together.

An association with Fiat is a further important benefit in our view.

They are a large, profitable and international group with interests in aviation, space and materials technology.

Furthermore, many of their interests dovetail with ours.

This will give us opportunities to strengthen our technological capabilities and open up new markets.

Moreover, Westland and Fiat are two of Europe's leading helicopter transmission manufacturers.

By contrast, the proposals of the European group aren't nearly so appealing.

A marriage of inconvenience.

Frankly, the consortium seems to be an ad hoc grouping of companies, some of which are state-owned and fierce competitors of ourselves and each other.

The truth is, there's a glut of helicopters in Europe, with problems of overmanning and overcapacity.

We believe that instead of making complete helicopters, Westland would steadily be reduced to producing only parts for a European machine.

Our skills, our know-how, our self esteem would all be degraded whereas with Sikorsky and Fiat they'll be enhanced.

With their help, we'll form a formidable new competitor for everyone else in the market.

But would the Government discriminate against Westland if we join forces with Sikorsky and Fiat?

Our Chairman wrote and asked the Prime Minister this very question.

The Prime Minister's assurances.

We sent the full text of both letters to our shareholders on 6th January and yesterday published them in an advertisement.

One of the key points she makes is this:

"As long as Westland continues to carry on business in the UK, the Government will of course continue to regard it as a British and therefore a European company, and will support it in pursuing British interests in Europe."

Why shareholders can't vote on both proposals.

We have sent you full details of both sets of proposals together with the Board's recommendation.

Some shareholders, however, have asked why they can't vote on the two and make a decision as they do in a competitive takeover.

There are two reasons why not.

First, this is not a takeover. It's a capital reconstruction for a company in extreme financial difficulty.

The Board's overriding duty is to assess, with its wide knowledge of the commercial background, what is best for Westland and to make a clear recommendation to shareholders.

Second, because of the urgency of the situation, we need a quick and decisive solution. We simply can't risk falling between two stools.

Apart from anything else, the law insists that either proposal gets a three-quarters majority. If both alternatives are put to shareholders, there's a real danger that neither will get that majority.

Our urgent priority must be to establish a stable framework within which Westland can operate.

Westland's phone-in.

We hope we have explained why your Board is strongly recommending you to vote without delay in favour of the Sikorsky and Fiat proposals.

If you have any difficulty in completing and/or returning your proxy card in time, we invite you to phone us between 10am and 8pm daily.

The number is 01-583 1398.

Every single vote is crucial for Westland's future and delay could seriously damage us.

Remember, to be valid, your proxy must be received this week.

FOR USE BY WESTLAND SHAREHOLDERS ONLY.

Please return the coupon to The Registrar, Westland plc, National Westminster Bank PLC, Registrar's Department, P.O. Box 82, 37 Broad Street, Bristol BS99 7YA.

Form of Proxy for use at the Extraordinary General Meeting of Westland plc ("the Company") to be held on Tuesday, 14th January, 1986.

I/We the undersigned being (a) member(s) of the Company, hereby appoint the Chairman of the Meeting or (see note 1)________________

as my/our proxy to vote for me/us on my/our behalf at the Extraordinary General Meeting of the Company convened for 10.30 a.m. on 14th January, 1986 and at any adjournment thereof.

I/We direct that my/our vote(s) be cast on the resolutions referred to in the Notice of Meeting as indicated by an X as shown below and on any other resolution in such manner as my/our proxy thinks fit.

Date________________

Please complete in BLOCK CAPITALS

Signature(s)________________

Name(s) in full:________________

Address(es)________________

RESOLUTIONS:	FOR	AGAINST
Number 1: Ordinary Resolution		
Number 2: Special Resolution		
Number 3: Special Resolution		

Notes

1. If you wish to appoint any other person as your proxy, who need not be a Member of the Company, please delete the words "the Chairman of the Meeting or," and insert the name and address of your proxy.
2. Please indicate how you wish the proxy to vote in respect of the resolutions. If no indication is given, the proxy will have discretion as to whether and how to vote.
3. To be valid this proxy form when completed (with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof) must be lodged with the Company's Registrar, National Westminster Bank PLC, Registrar's Department, P.O. Box 82, 37 Broad Street, Bristol BS99 7YA, not later than 48 hours before the time fixed for the meeting or adjourned meeting.
4. In the case of a corporation, this proxy form must be executed under its common seal or signed on its behalf by a duly authorised officer.
5. In the case of joint holders, the vote of the senior holder that tenders a vote will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by the order in which the names stand in the register, but the names of all holders must be shown.
6. Any alteration to this proxy form should be initialled.

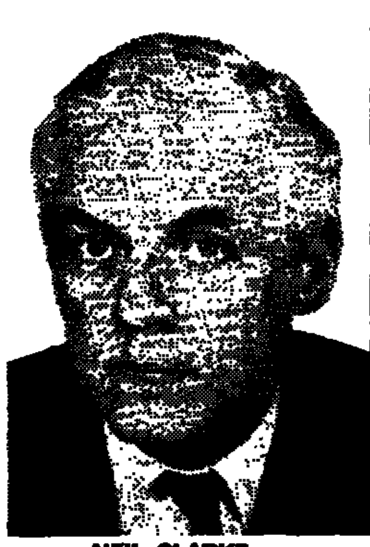
WESTLAND

THIS ADVERTISEMENT HAS BEEN PUBLISHED BY LAZARD BROTHERS & CO, LIMITED ON BEHALF OF WESTLAND PLC.

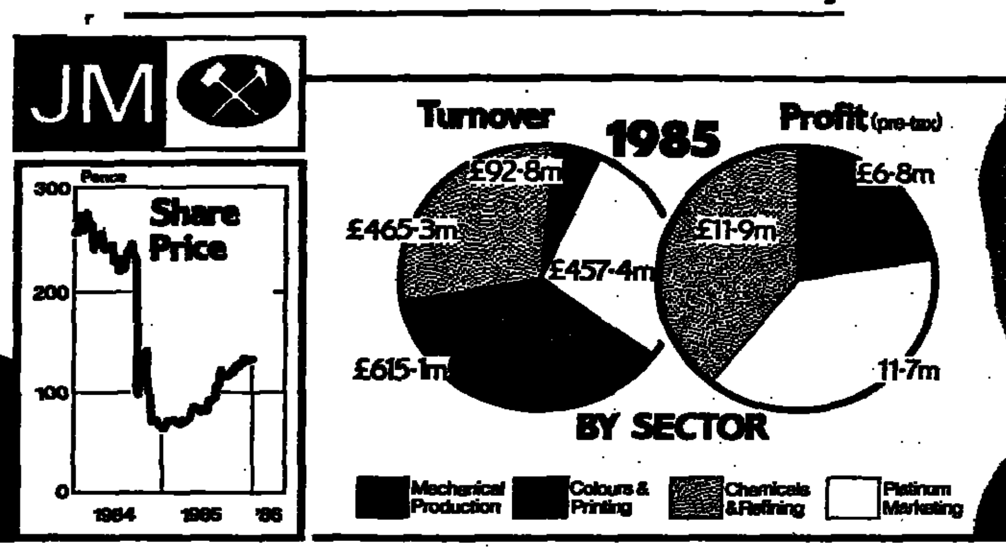
THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

The revitalisation of Johnson Matthey



NEIL CLARKE



EUGENE ANDERSON

New team administers painful surgery

By Stefan Wagstyl

FOR Johnson Matthey survival is no longer the issue. Faster than ever seemed possible, it is recovering from the impact of the disaster which has engulfed its former subsidiary Johnson Matthey Bankers.

While JMB, which was saved from collapse in November 1984 in a rescue takeover by the Bank of England, remains at the centre of one of the biggest political and financial storms the City of London has ever known, Johnson Matthey plc has not only managed to pull itself out of financial danger but has also been largely untouched by the blazing row over allegations of fraud at its former subsidiary.

The pace of progress has surprised almost everyone at the precious metals and chemicals group including Eugene Anderson, the chief executive, who says: "We are going along faster than any of us expected."

Johnson Matthey has reached a crucial point in its recovery—it has secured its immediate future by cutting the debts which once threatened to overwhelm the group; it has struck a three-year financing deal with its bankers; and it is now looking hard at raising the profitability of its businesses.

The recovery raises two questions—first, how has this 180-year-old group managed to move so quickly since JMB was taken over by the Bank of England last October? And second, can it maintain the momentum now that its survival is no longer at stake?

Johnson Matthey suffered a profound shock when it lost JMB. The loss cut shareholders' funds from £351m to £205m and pushed up debt to £471m—£284m in borrowed cash and the rest in borrowed precious metal. On top of that it exposed weaknesses not just at JMB but in the group as a whole, notably the inadequacy of central financial controls on the 70 or so companies in Johnson Matthey.

Rapid boardroom changes followed the debacle—Harry Hewitt and three other senior directors resigned and Neil Clarke, chief executive of Johnson Matthey's biggest shareholder, the Charter Consolidated industrial group, stepped in as non-executive chairman. Anderson, aged 46, arrived in May from the US, where he had been president of Celanese International Corporation.

But the new men did not entirely dominate the board—Joe Stevenson, who joined Johnson Matthey nearly 30 years ago and is now operations director, played a particularly influential role in the months before Anderson's arrival. Gordon Thorburn, the new finance director, also came from within the company.

The company was in no state to consider trying to rescue JMB itself. The bank, one of the five members of London's gold fixing ring, had built up a large book of bad debts by a hasty expansion into commercial lending. The potential bad loans of £250m were too large for the parent group to cover, especially after it had lost the best part of £100m on a disastrous US venture into making finished jewellery.

Even so, the terms of the rescue put together by the Bank of England, commercial banks and Charter Consolidated left Johnson Matthey with very heavy debts. "The balance sheet is hopelessly overstretched" one City analyst in November 1984, forecasting a £100m fund-raising in 1985.

But this did not prove necessary. Johnson Matthey set to work on debt reduction at such a pace that borrowings of money and precious metal fell from their £471m peak in October 1984 to £227m by September 1985, reducing the debt/equity ratio from 138 per cent to 75 per cent—"almost respectable," in Anderson's words.

By the summer, City analysts were saying that Johnson Matthey had got off lightly in getting rid of JMB when it did; quite apart from its financial recovery, the group avoided most of the taint of scandal which surrounded its former subsidiary. It began to win back the confidence of its workforce, customers and banks, though as Stevenson says: "It would be better if JMB weren't always in the headlines."

Johnson Matthey was able to sign a three-year financing deal with its 34 banks in August—replacing the tough interim arrangements that had been hurriedly put in place when JMB collapsed. In November, Anderson said that the company was ahead of schedule on repaying this three-year loan.

Johnson Matthey raised some £12m from the sale of two businesses. But the bulk of the £250m reduction in money and metal debts has been squeezed out of the group by cutting working capital, particularly in the precious metal refining operations.

Anderson says: "None of us really appreciated the magnitude of the veritable gold mine that existed here." The irony was that the weak financial systems which permitted JMB to run out of control had also allowed excess fat to accumulate elsewhere in the group, he says.

He was amazed to find that divisional managers had precious metal stocks on their books on which no return was expected "They had so-called free metal, free assets."

These remarks go to the heart of the problem at the old Johnson Matthey. Stevenson is the first to admit that financial controls at the centre were too weak. "We were like a Polo mint with a hole in the middle."

Information flowed into this "hole" but it was mostly not presented in a way which allowed central management to act promptly. Too much information was simply filed away — central managers were not instructed to respond to its properly. Equally, group management was inefficiently structured with two head offices —one in Hatton Garden, centre of London's jewellery trade, and the other at Southgate, in North London. Senior managers used to spend hours travelling between the two.

Stevenson says that this system worked well enough with most group companies which were in Johnson Matthey's traditional business areas — refining precious metals and turning them into anything from gold rope for jewellery, to autocatalysts for cleaning up vehicle exhaust emission. But the system's inadequacy was exposed by two big new expansions — the US move into making and marketing finished jewellery and the bullion bank's diversification into commercial lending.

In late 1984, immediately after the JMB crisis broke, Johnson Matthey called in management consultants from Coopers and Lybrand to review its financial systems. As a result five top financial jobs, all one tier below the finance director, were redefined to give them power of financial control. For the first time, Johnson Matthey appointed a metal controller with the right to ask operating companies to account for metal stocks.

At the same time, Johnson Matthey ordered the closure of the Southgate office, partly to improve the flow of management information and partly to cut costs. Clarke, the new chairman, says Southgate was the "swollen belly of Johnson Matthey."

Johnson Matthey believes that its new systems will alert its board to problems in time. Stevenson says that managers in operating companies have responded very well. "I have not lost a senior executive over this."

The speed with which the group has acted was an obvious response to the JMB disaster. Why did no one react earlier, particularly after the US jewellery company went wrong in 1983? Clarke points to the group's inward-looking culture, typical of the precious metals trade.

Johnson Matthey was too insular, he says. Too few senior executives came from outside. Those promoted from within did not reach the top tiers until late in their working lives. "This does not produce the right willingness to question and challenge," says Clarke.

It will take time too before it is clear whether the shock of losing JMB has been enough to change attitudes permanently. But Clarke says that "management down the line has reacted extremely positively." The extent of the transformation will now be tested in the second and third stages of Johnson Matthey's recovery plan — namely extensive rationalisation and subsequently selective expansion.

Anderson admits that profits have suffered while the group has concentrated on debt-reduction. In November the group reported a very modest increase in interim pre-tax profits for the period to the end of September of £10.5m against £9.4m. A reduction in interest payments compensated for a drop in operating profit.

Anderson says that the group's rate of return on equity after tax and interest was 6 per cent in 1984-85. His target is 15 per cent.

As a first step, the company is cutting jobs rapidly to improve productivity. The workforce has been cut from 9,270 at the end of March to about 8,200 with more reductions to come from redundancies, closures and disposals.

There is also a tight central control on new capital expenditure. Anderson says that there is an excess of land and buildings and equipment in Johnson Matthey. New projects are now judged by their contribution to the group as a whole — not to an individual operating company as was too often the case in the past, he says.

But a cost squeeze can only go so far in improving profitability. What about the underlying quality of Johnson Matthey's businesses?

The group plans to concentrate on its skills in marketing, refining and handling precious metals; it also believes it has a strong business in most parts of its colours and printing division, particularly in companies supplying specialist materials (including liquid gold) for china and glass decoration. It has already sold peripheral companies—for example Malthus Instruments.

The heart of Johnson Matthey is platinum. The platinum marketing division contributed operating profits of £11.7m out of a group total of £30.4m in the year to March. On top of this it made £5.44m from related companies, largely Matthey Rustenberg Refiners, which processes metal from the biggest of South Africa's three platinum mining companies.

Johnson Matthey also sets great store by its autocatalyst business, an acknowledged market leader in a field which could grow dramatically as more and more countries tighten the legal restrictions on vehicle exhaust gases. This is part of the chemicals and refining division which contributed operating profits of £11.9m out of a group total of £30.4m in the year to March.

But the same division also has serious weaknesses. The platinum refining activities, which concentrate on recovering scrap platinum, were held back by a loss-making refinery at West Deptford in the US. The group is expected to decide by March on the future of this troubled plant.

Too many businesses in the mechanical production division, which only broke even last year on a turnover of £615m, are also performing poorly. Johnson Matthey has set about rationalising and reorganising, particularly in the UK. But there are doubts in the City about whether this division has a good future—its largest activity is in supplying precious metal alloys and components to the jewellery trade (gold rope, for example) and to engineering industry (bimetallic strip, for instance). These have not been growth markets.

Anderson is well aware of the group's difficulties. But he is already thinking how best to expand the group's stronger businesses, including autocatalysts and specialist chemicals based on precious metals.

"I have to think about what we are going to do for an encore," he says.

Management abstracts

Should collective bargaining and labour relations be less adversarial? N. E. Bowie plus D. R. Koehn in Journal of Business Ethics (Netherlands), August 85 (12 pages)

Argues that the "poker game analogy" is not suited to negotiations because it undermines trust, ignores the need for co-operation and fails to take fairness and human dignity into account. Suggests that collective bargaining should resemble the way decisions are reached in the ideal family. A linked article provides a commentary which is supportive but points out some "incoherences" in the ideal-family model.

Auditor's duty at detect fraud. P. McLachlan plus others in The Chartered Accountant in Australia (Australia), June 85 (9½ pages).

Makes the claim that there are no statutory or legal reasons for believing that auditors can escape responsibility for failure to detect fraud, and argues that considerations of materiality do not reduce that responsibility. A linked article analyses the operation of a little-publicised fraud at OPM, a US leasing company, in 1982: the two partners, with the aid of bribery, bad auditing, and creative accounting, walked away with $230m. Draws the conclusions that (a) auditors are at risk when they accept too much on trust, (b) when lawyers and accountants accept large fees for advisory services their independence can be impaired, and (c) widespread complicity in a fraud is not—despite what the authorities suggest—so unusual.

Corporate Video. A. Curnow & A. Bye in Campaign (UK), September 13 1985 (2 pages)

Focuses on two subjects: (1) whether it is better to use a top manager from the company or a well-known face to present a corporate video; draws examples from the Burton Group (clothing) and the Prudential (insurance) both of whom combined both methods; (2) whether an in-house production unit is justifiable, better, or cheaper, describes the successful experiences of Rentokil (pest control) whose video production unit has operated since 1977.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at a cost of £4 each (including VAT and p and p; cash with order) from Anbar, PO Box 23, Wembley HA9 8DJ.

THE ARTS

Television/Christopher Dunkley

Rock rolls back reality in the global village

In 1985 television proved yet again to be involved in the news in three different ways. First, it continued to convey news of world events as it has for 30 years: television provided the public with its primary supply of information on air disasters (a record number), royal tours (ditto, surely) and the celebration of the 40th anniversary of VE Day.

But frequently television also proved to be newsworthy itself, as so often in the past decade or so. There was the furious and serious row over *Real Lives* with the then Home Secretary, leaning on the BBC Governors to persuade them to suppress a programme about extremists in Northern Ireland, the governors caving in, and then such an outcry that they were forced to cave out again.

There was the raising of the BBC licence fee from £46 to £58 and the setting up of the Peacock Committee to investigate alternative BBC financing. And there was the *Dallas* nonsense between BBC and ITV which resulted in the resignation of Thames managing director Bryan Cowgill (though no reappearance of the series for *Dallas* fans—not in 1985, anyway).

But perhaps most significant of all was the increasing number of occasions when television was not simply the medium for conveying news of a remote happening, nor the actual subject of a news story itself, but an integral and inseparable part of some newsworthy event. The most famous example of the year was the *Live Aid* concert in July. Whether this really attracted the first global audience of more than a billion, who knows; head counting in some countries is not accurate enough to be sure. What does seem clear is that the figure went higher than the previous record of 750m which was credited to the televising of the marriage of Prince Charles and Lady Diana in July 1981.

Other examples of events where television's own presence was significant were the appalling Heysel Stadium tragedy in May, the Reagan/Gorbachev summit talks in November, and the televising of the House of Lords which began in January. Sadly and misguidedly the House of Commons voted in November, by a narrow majority yet again, to reject even the experimental televising of its own activities. Thanks to its old-fashioned and, unfortunately, often ignorant attitude towards television the House of Commons is slowly bringing about the marginalisation of its own affairs. Some people may dislike the fact but television is central to our public (and often private) lives, and the British Parliament should be central too.

On the technological front 1985 was yet another year when there was more talk than action. Spring saw the much heralded Direct-Broadcast-by-Satellite (DBS) revolution being postponed and perhaps cancelled for ever. The Club of 21, formed at the Government's behest by the BBC, ITV and selected entrepreneurs, told the Government that the requirement to buy British hardware made the proposal an impossibly expensive risk.

Once that pipe-dream had evaporated ITV and BBC began to discuss plans for a "super channel" to beam the best of the programmes from both organisations across Europe via conventional low-power satellites. The main thrust behind this scheme was Rupert Murdoch's success with Sky Channel, sent from London via satellite to millions of Europeans from Helsinki to Paris. The BBC and ITV were afraid that if Murdoch was left alone in the field for long he would establish an unassailable dominance.

The Government, seeing its brainchild "the entertainment-led revolution" failing on all fronts, quietly legalised SMATV ("Smatvee": Satellite Master Antenna Television) and introduced a licence fee of only £10 for satellite dishes. By year's end DSR are offering package deals to supply viewers with a dish and converter so that they could pick up satellite channels dedicated to music, sport, children's programmes and—the true selling point—new movies. The cost was £788 a year which made the BBC licence fee look astoundingly cheap.

With so little technical change television for the overwhelming majority of viewers still meant ITV, BBC1, BBC2 and Channel 4, which in a typical week would split the audience 47:35:11:7 (if ever there were such a thing as a typical week). Video recorders had been installed in 35 per cent of homes by the end of 1985, yet this made precious little difference to *what* was watched even if the time *when* it was watched varied—time shifting rather than the playing of rented tapes accounting for the lion's share of VCR use in Britain.

With the satellite revolution postponed, cable still a small business in the UK, and VCRs used for re-scheduling broadcast programmes, British television was still dominated by the famous duopoly, BBC and ITV, with only a tiny proportion of viewing claimed by the independents who, anyway, contributed a minority of Channel 4's schedule.

So what did ITV and the BBC offer us? In drama serials quite an impressive year. It began in January with *The Price* on C4, a six-part thriller by Peter Ransley about a computer company millionaire (played by Peter Barkworth) whose wife and step-daughter were kidnapped by Irish terrorists. Well written, and tightly directed, *The Price* was interesting for being co-produced by the independent company Astramead and Eire's state broadcasting company RTE. Channel 4's other triumph was *Octopus*, an import from Italy (C4 contributed co-production money) about a determined attempt by one uncorrupted policeman to bring the local Mafia chapter to book. It reeked of Sicily and in Michele Placido presented the most interesting new male actor of the year—new to Britain, anyway.

January also brought Alan Plater's delightfully light and funny serial *The Beiderbecke Affair* to ITV. This involved a crypt full of stolen goods, a bittersweet love affair and some wonderfully authentic scenes in a modern school. But all the year's other honours in drama serials went to the BBC. *Oliver Twist* in the autumn would have seemed an impressive Dickens adaptation in most years, but having been preceded by *Bleak House* it looked ordinary. *Bleak House* was directed by Ross Devenish in such a way that it felt as though he had gone back to the 19th century to do it, up to the ankles in horse droppings and with only candles for lighting. *The Detective* on BBC 1 was marred by Tom Bell being allowed to mumble into his shirt-front, and although *Tender is the Night* on BBC 2 had pretty locations and some good acting it felt too much like adapted literature to be great television.

But *Edge of Darkness* which came to us just before Christmas on BBC 2 (and then again almost immediately on BBC 1) was the real McCoy: a thriller which began in the familiar style of *Z-Cars*, where writer Troy Kennedy-Martin developed his skills, and then expanded rapidly into a drama dealing with the secretiveness of British government, the dangers of the nuclear age, and finally the very future of the planet. It drew splendid performances from Bob Peck and Joe Don Baker, as the British detective and the rogue CIA man, and was, in all, the best bit of real television in 1985.

Single drama was a much less rich area, with nearly everything of quality being set in Northern Ireland. *Contact* in BBC2's "Screen 2" series in January, for instance, was an extraordinarily effective piece of work, virtually without words, itemising the activities of a border patrol during which you scarcely dared breathe. *Ties of Blood* on the same channel in the winter confirmed that Graham Reid is a magnificent writer of dialogue: his pained and often painful family arguments told more about life in Belfast than entire series of documentaries. But asking him for six whole plays was apparently too much.

The year's greatest concentration of sex and violence occurred during a BBC play in April but attracted not so much as a peep from Mrs Whitehouse. No doubt even she would feel something of a nitwit wagging her finger at the author of the work in question, *Titus Andronicus*, which brought to an end the BBC's complete works of Shakespeare.

If I had a prize to give for the year's most interesting entertaining and original single drama it would go to C4's *Max Headroom*, written by Steve Roberts and directed by Rocky Morton and Annabel Jankel. Computer graphics and television's own place in the world were significant factors, but above all this production looked utterly contemporary.

Just as single dramas were weaker in 1985 than drama serials, so single documentaries were weaker than documentary series. My award for the best single documentary would go to Jonathan Gili's charming and fascinating programme *To the World's End*, which followed the route of the 31 bus through London, alighting to meet a diverse selection from the city's multicultural population. The BBC's other strong contender was *The Dying Swan*, which told a horror story about lead shot and monofilament nylon line, left lying around in appalling quantities by fishermen.

ITV brought us *Unit 731*, a sombre account of the Japanese use of human guinea pigs during the war; *Hooligan* which came closer to explaining football hooliganism than any programme I have seen; and in November *Cold Comfort Farm*, a description of the state of Britain's farming by Francis Gerard and Mad Max Hastings.

High quality documentary serials were more numerous. In the spring Don Haworth told the lyrical story of a shepherd's life in *Seabrook's Year*. In April Brian Lapping of Granada began *End of Empire*, the first of what proved to be a swelling stream of series using cinema and television archives to trace the modern history of Britain. Later in the year BBC2 presented the excellent series *Now the War is Over*, and C4 brought us right up to date with Philip Whitehead's *The Writing on the Wall*.

BBC 2 presented three other big documentary series. In *Triumph of the West* John Roberts took a Spenglerian view of history but argued it (mostly) optimistically. *Queens': A Cambridge College* sustained the excellent BBC tradition of anatomising British institutions. And *Comrades*, which is still proceeding, offers a view of the Russian people without concentrating on dissidents and refuseniks . . . much to the fury of some commentators.

The seepage of power away from current affairs programmes and into news departments continued in 1985. With more time than ever devoted to more news programmes than ever, and news "specials" on everything from royal tours to strikes, the pickings for current affairs looked thin. BBC 2's *Newsnight* was again the most impressive series to straddle the two areas, and *Diverse Reports* showed the way forward into an adult world where television's coverage of current events can be just as openly opinionated as that of the press.

It was yet another unimpressive year in comedy. The best series was *Fawlty Towers* which, although 10 years old, showed up all the new material in the most awful light when it was repeated on BBC 2 in November.

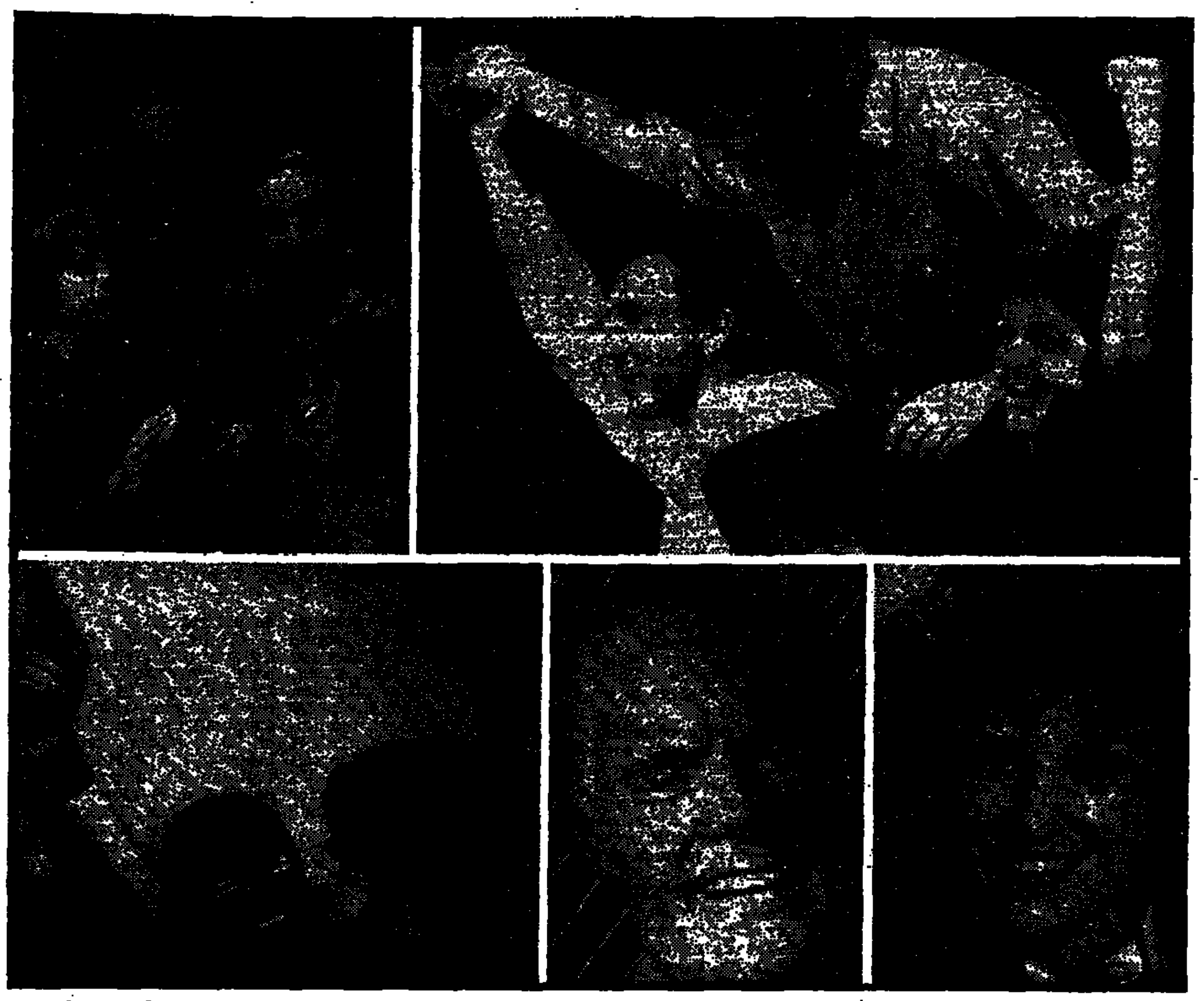
By contrast the various series from the "new wave" comedians looked undisciplined, indulgent and devoid of ideas or even specific attitudes.

With soccer virtually absent from the screen and no Olympic or Commonwealth Games, 1985 was a less than outstanding year for sport. Yet the pulling power of snooker was confirmed again, and the second week of Wimbledon gave the BBC its biggest audience share of the year: 54.8 per cent across the week, with all those hours of "Thirteigh, forteigh" on BBC2 contributing an unmatched 20.5 per cent to the Corporation's total.

Commercial television's biggest share came in the third week of January when ITV and C4 together took 60.5 per cent of the audience, leaving the BBC with a worrying 39.5 per cent. That is the sort of split which the BBC believes must not occur often if politicians are to be persuaded to sustain the licence fee, or indeed any form of finance for public service broadcasting. Sure enough, with Michael Grade stuffing more buoyancy into BBC1, the Corporation has not subsequently sunk below a 41 per cent share.

The ratings phenomenon of the year was obviously *EastEnders*, BBC1's twice-weekly soap opera set in London's East End which was launched in February. It attracted 17.35m viewers in its first week, sank steadily to 7.75m in July, and then (with the help of the newly aggregated weekend omnibus repeat, a system which also takes *Brookside* to the top of the Channel 4 ratings) climbed inexorably through 13m in August, 15m in September, 16m in October, and 19m in November to a staggering 21.8m in December.

And for 1986? More hours of television than ever before: the daytime wastes will be contested more competitively and those hours where you see only a page of Teletext will be reduced. A few more homes in a few more areas will be offered cable television at prices which will, again, make the licence fee look like a bargain. And the report from the Peacock Committee will astound those in the industry if it does not opt for some form of advertising on BBC channels, however little initially.



An impressive year for drama serials included BBC's "Oliver Twist" (top left) and Channel 4's "The Price" (bottom left) while C4's "Max Headroom" (bottom centre) was the most original single drama. BBC1's soapie "EastEnders" (bottom right) topped the ratings, but Bob Geldof's "Live Aid" concert (top right) appealed to the biggest TV audience ever

Hell's Angels/Royal Court

Dominic Gill

Nigel Osborne's new music-theatre work *Hell's Angels* is directed by David Freeman, who also wrote the libretto, and was given its premiere on Monday night by the Opera Factory London Sinfonietta. Osborne tells how the work was conceived in a recent interview in The Stage. "Originally we based the libretto on a play by Oskar Panizza, which is the story of how God punishes the Borgia Pope and his court for their dissolute excesses. It's a marvellous piece of theatre, and also very lively and provocative—so much so that it was banned at the time it was written. Then we extended this in Freeman's text to include a kind of modern version of the story concerning a recent Vatican intrigue."

"The idea is that the opera is about myth and superstition. It has not got a single message, but has very many messages: we are setting a number of different things in resonance. We call the contemporary myth a fiction, though it could very well be true. It's a serious piece, but also very comic. It may strike some people as being outrageous at times, but the intention is fundamentally serious. The score is designed very tightly, though it is varied in its mixture of instrumental and electronic music. . . . Like the story, the music tries to stride two levels of lightness and weight."

Elsewhere Osborne compares *Hell's Angels* to a morality play but adds that there are "several levels of ambiguity and no cast-iron conclusions." Conclusions, indeed, either conceptual, musical or dramatic, there are not but David Freeman's busy and colourful production keeps the movement alive even when it is becalmed (though never deserted) by the music.

It is not first and foremost a musical experience. Much of Osborne's score is apt, and some of it is very pretty: but one does not leave the theatre, at first hearing at least, with the resonance of a substantial musical event ringing in the ears. The short scenes, 20 in all, divided between two acts, flash rapidly between the Earths and Heavens of 1494 and the present day. The music binds the scenes, rather than separating them: perhaps that was its intended function—but the musical contrasts, at any rate, are persistently low-key, and the musical tone consistently unassertive.

The verbal and dramatic tone is, by contrast, provocative and unrelenting. The opening words, sung by a hypothetical modern-day Pope, set the scatological context: "What on earth made them elect a shit like me?" The manner of the first act crosses the Benny Hill Show with *Life of Brian* and a splice or two of Woody Allen—a savage, jokey satire, unevenly sharp, which collects together on the stage at the end of the first act, at least, far more naked men and women at once than either Benny Hill or Monty Python could ever hope to have achieved.

In the second act, which tells, obliquely, of a joint plan by God and the Devil to punish the wicked of the earth with AIDS, Osborne's music sometimes rises, as it had from time to time in the first part of the first act, and as the plot, and the plots, thicken, to accompany some more substantial set-pieces—notably a sequence of interrogations by the Devil of Helen, Heloise, Agrippa and Salome. But these are largely submerged in the memory by the stage-effects of the score, sound-effects in the main to accompany spoken words and free recitative—and by the unfolding stage picture.

The ending is mysterious, unresolved, not altogether satisfying. The designs and lighting are simple, striking, effective. The singing of the large cast, and the London Sinfonietta's instrumental playing, were excellent. Odd, interesting, and worth a visit — though book soon, for all that nudity is bound to draw the crowds.

Alastair Muir

Tom McDonnell (top) and Omar Ebrahim

The Nutcracker/Paris

Freda Pitt

Rudolf Nureyev's new production of *The Nutcracker* for the Paris Opéra Ballet has brought him his first unblemished success since he took over that brilliant but wayward company two seasons ago. Although the basic concept of Clara as a lonely child in a hostile adult world remains, the treatment is substantially softer than that of Nureyev's earlier edition, as reproduced at Covent Garden in 1968 and at La Scala, Milan, shortly afterwards.

In the first place, both Monique Loudières and Elisabeth Maurin look much too happy and confident for us to believe on the one hand that they could be so slighted by their relations and on the other that they would need to take refuge in dreams, while Drosselmeyer's identity takes on even greater ambiguity with the lack of interest shown in him by his Act 1 hosts. In the opening sequence he is set upon by the youths of the neighbourhood in much the same way as another magician invented by Hoffmann, but his fondness for his flesh-and-blood god-daughter can hardly be paralleled with Dr Coppélius's obsessive attachment to his doll. Merging Drosselmeyer with the Nutcracker prince, after the rats have been vanquished by his younger embodiment (Stéphane Elizabé) has little serious justification beyond Nureyev's original wish to perform the double role, it being scarcely credible that Clara should equate that mysterious elderly gentleman — however tender, however generous—with any sort of prince charming.

What has particularly transformed and brightened the atmosphere of the production is the delightful contribution by the children of the Opéra school, first as guests at the Act 1 party —unruly but not nasty-natured, as they seemed in Milan, for instance—and then as notably unfrightening rats, their smiling faces partly uncovered.

Other than when bewigged in the Waltz of the Flowers, the company as a whole looked contented and at ease, despite the infelicities of Nicholas Georgiadis's over-elaborate costumes.

Somewhat surprisingly, budding *danseur noble* Laurent Hilaire (recently appointed an "étoile") looked less comfortable than Rudolf Nureyev in the complexities of the Prince's two big solos, experience telling against youth. On the other hand, Hilaire managed creditably as Drosselmeyer and, inevitably, he achieved a more equal and convincing partnership in Act 2 with altogether captivating Maurin than could with Loudières. She is an admirable dancer and made an endearing child in Act 1; Nureyev partnered her attentively throughout, but they could not perform as a true couple.

Casting from strength, Nureyev presented Patrice Bart as a nicely mischievous Grandfather, Bruno Cauhapé alternating with Manuel Legris as Clara's brother Fritz (here more high-spirited than malicious), dashing Wilfrid Romoli among the guests and Isabelle Guérin and Karin Averty leading a stylish group of Snowflakes.

No choreography has yet matched Chaikovsky's enchanting score, and Nureyev's can certainly not claim to do so. At least at the Opéra the music was given its full value by the orchestra under Ulf Schirmer. The ubiquitous John B. Read was responsible for the skilful lighting, which does much to heighten the contrast between the dramatic and gloomy moments and the triumphantly luminous ones.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

Jan 3–Jan 9

Theatre

LONDON

Noises Off (Savoy): The funniest play for years in London, now with an improved third act. Michael Blakemore's brilliant direction of backstage shenanigans on tour with a third-rate farce is a key factor. (836 8888).

42nd Street (Drury Lane): No British equivalent has been found for New York's Jerry Orbach, but David Merrick's tap-dancing extravaganza has been rapturously received. American Clare Leach is a real find as Peggy Sawyer, and Margaret Courtenay has a field day (836 8108).

Me and My Girl (Adelphi): Sleek, efficient and enjoyable revival of Britain's biggest war-time musical hit with Robert Lindsay in the Lupino Lane role emerging as the best new musical star since Michael Crawford. (836 7611).

Gigi (Lyric): Unconvincing stage revival of Lerner and Loewe's film follow-up to My Fair Lady, Beryl Reid rising inimitably above the material, Jean-Pierre Aumont and Sian Phillips lending more conventional support. John Dexter directs, Jocelyn Herbert designs. (437 3686).

Interpreters (Queen's): Love among the diplomats, according to Ronald Harwood has a superb role for the matchless Maggie Smith renewing a cross-cultural affair with Edward Fox in the shadow of a summit between The Soviet Union and Britain. Fluent direction by Peter Yates of the West End's best new play of the year. (734 1166).

Lennon (Astoria): A not too critical celebration of the life and music of John Lennon that is enjoyable especially for the musical resourcefulness of the cast and Mark McGann's Lennon look-and-sound-alike. (734 4287).

Les Misérables (Palace): Notably well sung and spectacularly produced rock opera from the Nickleby and Cats team of Trevor Nunn, designer John Napier and lighting man David Hersey. Colm Wilkinson superb as Jean Valjean. A melodramatic distillation of Hugo, and none the worse for that. The French score is rousingly melodic, with serviceable new lyrics from Herbert Kretzmer. (437 6834)

Camille (Comedy): Pam Gems's rewrite gives Marguerite Gautier a child for whose future security she but Frances Barber is an actress to watch. More coughing on stage than in the stalls, for a change. (930 2578). exchanges her own frail health and love. Don Daniels's studio RSC production does not transfer that well,

PARIS

Julius Caesar: Hollywood-style production, using the latest sound and lighting technology, in which Robert Hossein miraculously preserves Shakespeare's eternal truths. Palais des Sports. (48 28 4090).

NEW YORK

Cats (Winter Garden): Still a sellout, Trevor Nunn's production of T. S. Eliot's children's poetry set to trendy music is visually startling and choreographically feline, but classic only in the sense of a rather staid and overblown idea of theatricality. (239 6262).

42nd Street (Majestic): An immodest celebration of the heyday of Broadway in the '30s incorporates gems from the original film like Shuffle Off To Buffalo with the appropriately brash and leggy hoofing by a large chorus line. (977 9020).

Brighton Beach Memoirs (46th St): The first instalment of Neil Simon's mix of memories and jokes focuses on a Depression-era Jewish household where young Eugene falls awkwardly in love with his cousin. (221 1211).

Mayor the Musical (Latin Quarter): Based very loosely on Mayor Koch's best-selling autobiography, this revue, now on Broadway but still in an intimate space, takes swipes at the mayor, his political nemeses and his eminently spoofable constituency in a lively and telling production that you need not be a New Yorker to understand – or laugh at. (588 3903).

As Is (Lyceum): The first play about AIDS makes gestures toward the whole community the disease affects and focuses effectively on the victim and his protective lover; but this Circle Rep production also has distracting artistic touches to patch over the play's lack of development once the disease is diagnosed. (239 6200).

La Cage aux Folles (Palace): With some tuneful Jerry Herman songs, Harvey Fierstein's adaptation of the French film manages, barely, to capture the feel of the sweet and hilarious original between high-kicking and gaudy chorus numbers. (757 2626).

I'm Not Rappaport (Booth): In moving to Broadway, Herb Gardner's touching, funny and invigorating play about two oldsters retains its stars, Judd Hirsch and Cleavon Little, who almost conquer the world when they think they are just bickering with each other. (239 6200).

A Chorus Line (Shubert): The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (239 6200).

WASHINGTON

A Seagull (Eisenhower): Colleen Dewhurst stars in Peter Sellars' latest production for the American National Theater, which is bound to be imaginative and untraditional in a tradition Sellars is establishing on his own. Ends Jan 11. (254 3670).

In Regard of Flight (Kreeger): Bill Irwin's theatrical spoof shows off the mime's talent in confronting a man-eating stage curtain and a disappearing shoe on the quest of a new theatrical genre. Ends Jan 12. Arena Stage (488 3300).

TOKYO

A Christmas Carol: Dickens' story performed in English by Tokyo's only professional English Theatre company, Albion-za, at their new studio theatre. Albion-za Studio. Ebisu. (443 3903).

Uchu Johatsu (Evaporation of Space), the Yume no Yumin-sha company directed by Hideki Noda. One of Japan's most popular avant-garde troupes and cult figures, their hyper-energetic style and fantastical illogical plots have won wide support from the young, but leave adults baffled. Hodan Theatre, Shimokitazawa district. (237 9999; 980 6666).

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Political link with Europe

MR NICHOLAS RIDLEY, the British Transport Minister, and Mr Jean Auroux, his French counterpart, gave every impression yesterday that their meeting in Paris to discuss the Channel fixed link was cordial. It is fitting, however, that the last minute wrangling over the link should be political rather than technical. Having disagreed for so long about the need for a link, it is hardly surprising that the two governments should now be politely disagreeing over the technicalities.

With so large an infrastructure project, it is only too easy to put excessive weight on engineering or economic factors and to forget that its principal rationale is political. A fixed link is not an economic necessity. In 1982, the Anglo-French Channel link study group, comprising officials from both countries' transport departments, concluded: "There is no doubt in our minds that port and shipping services could be developed to handle the growth in surface traffic projected up to the year 2000 and beyond."

Trading patterns

Nothing has since changed to render that assessment invalid. The rapid build up of cross-Channel traffic in the decade after Britain joined the European Economic Community reflected a structural change in UK trading patterns that may now be largely complete. There is little doubt that investment on a scale which would be modest set against the cost of any sort of fixed link would be sufficient to finance a new generation of larger, faster and more efficient ferries.

But whatever the economic arguments, the political case for a fixed link is strong. A tunnel or a bridge would be a tangible and permanent symbol of Britain's commitment to Europe, the importance of which cannot easily be quantified. The project—in Britain at least—does capture the popular imagination and should prove electorally advantageous for Mrs Thatcher. Both governments, sensitive to problems caused by high unemployment, are aware of the attractions of seeming to do something about it by initiating a big infrastructure project. In the UK, a fixed link is politically easier to justify than a comparable domestic project.

Equally important, private sector money for a fixed link does appear to be forthcoming. The two governments could well argue that if they fail to sanction one of the projects, they will be denying the private sector an investment it wants to make. In many ways it is regrettable that for practical reasons politicians are having to rule on the merits of the various schemes. It would be neater if the private sector interests putting up the money could also decide which project went ahead; under present arrangements, the market will at best have the power to veto a ministerial decision by failing to produce sufficient cash.

The absence of a clear market mechanism—nobody has put forward a credible scheme for auctioning the fixed link concession—leaves Mr Ridley and Mr Auroux with the unenviable task of weighing the relative risks and returns of the front runners. The danger is that the politicians will actually prove more risk averse than the market and disappoint the public by selecting the safest option, which is the twin bore rail tunnel proposed by the Channel Tunnel Group (CTG).

A safety-first approach, which the French seem to favour, has big attractions. Long delays on the project—or worse, substantial cost escalation—would be highly embarrassing for the sponsoring governments in spite of the private-sector financial backing. Yet since the link is a political opportunity rather than an economic necessity there seems a strong case for selecting a scheme that offers the traveller — particularly the motorist — something substantially more attractive than the present ferry or hovercraft service.

Given the expected duration of the fixed link concession, whatever decision the two governments take in the next few weeks will rule out other options for decades. It therefore seems unwise to settle for a scheme that does not include a road link. The cheapest and most practical on offer appears to be that of Channel Expressway. Assuming the technical problems of tunnel ventilation are surmountable, the Government should strive to overcome French reservations about this project; the January 20 deadline for a decision should not be regarded as immutable if agreement proves hard to reach.

US faces the hard questions

REPRESENTATIVE Les Aspin, chairman of the House armed services committee, has estimated that the Gramm-Rudman budget-balancing amendment could lead to an automatic cut of $80bn, or more than a fifth, in US defence appropriations for 1987. This startling figure may at least draw the attention of the outside world to the fact that the amendment has been passed, though it will do nothing to settle the debate about how much difference it will make. Enthusiasts will argue that it shows that the amendment is tough, not gradualist. Sceptics will say it simply shows that it demands the impossible, and will be evaded. Would-be-believers like our recent contributor Dr Martin Feldstein will cite the estimate as a measure of the pressure on Congress and the President to agree on less dramatic measures.

What can be hardly doubted is that Gramm-Rudman will force the Administration and the Congress to think much more seriously than they have until now about how the US government deficit might be reduced, whether or not they actually budget for the prescribed $144bn dollar deficit prescribed for 1987, let alone achieve it. Since the amendment prescribes automatic cuts in defence and some politically sensitive civil programmes to achieve the necessary bottom line, it is supposed to enforce compromise. The amendment has some escape clauses, notably in case of low economic growth, and its legality is still under challenge; but the debate is now on.

Fiscal relaxation

There is no sign yet, though, of any great debate in the outside world about how to respond to a potentially drastic change in US policy — or even of any recognition that the outside world is in any way concerned with American housekeeping. Since the muffled ambiguities of the Plaza meeting, when the Germans and the Japanese appeared to agree that they might find some room for fiscal relaxation if the US deficit was indeed reduced, nothing has been heard.

Given the stately pace of US budget-making, it will be some time before there is any pressing need for action in the outside world; but it is surely not too early to start a discussion. The conventional wisdom, as argued by the OECD and by such private sector commentators as Morgan Guaranty, is clear: a major fiscal tightening by the US, on top of the fall already achieved in the dollar, will sharply depress export demand world-wide, and reduce growth if no offsetting action is taken.

This analysis seems to be implicitly rejected by the governments of Germany, Japan and the UK, all of whom see budget-balancing as virtuous in itself, and seek, with various degrees of determination, to practice it. They have long argued that the high US deficit is the main cause for high real interest rates all over the world, and that a reduction in US borrowing and world-wide borrowing costs would make matters better, not worse, and notably better for the debtor countries of the world.

Monetary policy

While this could indeed prove true, it amounts to backing a theoretical hope against a near-certainty, and this really is not an adequate form of contingency planning. It is not just a hope but a general belief that the combination of dollar depreciation and fiscal tightening will begin to reduce the US current account deficit from 1987 onwards. Since the growth of that deficit has provided nearly half the growth of total demand in Europe, and a higher proportion in some Asian economies, the implications are far from trivial. Indeed some Asian economies are already in near-recession simply because US demand is growing more slowly, let along falling.

This does not mean that a fiscal balancing act is the only answer, or the right one. A resumed flow of capital to the developing countries, at lower interest rates, would probably be a more helpful counterpart; but it cannot be taken for granted that these results will automatically follow any US deficit reduction. Technology and deregulation have thrown monetary policy into confusion wherever they have made an impact, and lenders are scared. A helpful outcome, however, defined, will be much likelier if we prepare for it.

THIRD WORLD DEBT

Presidents Alfonsin of Argentina and Sarney of Brazil (left and centre left)—defiance of the IMF. Presidents Babangida of Nigeria and Garcia of Peru (centre right and right)—imposing a solution on the banks.

For crisis, read problem

By Anatole Kaletsky

THE Third World debt crisis may at last be over. The latest propitious signal may have been an odd one, but was impressive nonetheless. It came on New Year's day.

When President Ibrahim Babangida of Nigeria announced that his country would limit its foreign debt payments in 1986 to 30 per cent of its export earnings, the financial community far from reacting with alarm and outrage raised hardly a murmur of protest.

Developing countries' massive debts will doubtless remain an endless source of difficulties for many years ahead; but they are losing their capacity to shock the international system. Third World debt is maturing from a crisis into a mere problem.

Back in 1983, the fate of the whole world economy was thought to hang on a flimsy thread of mutual dependence which bound the great international banks, the IMF and the debtor countries of Latin America, Africa and Asia. Each time this thread was stretched — by an intransigent debtor, an unyielding bank or a deterioration in economic conditions — the dreaded word "default" along with its attendant bank runs, trade wars and monetary panics, would be exhumed from the vocabulary of financial crisis.

Against this background hardly anyone dared to contemplate what might occur if the debtors started to seize the initiative from the IMF and the banks. It was unthinkable that confidence and stability might actually be *increased* as the balance of power shifted in favour of the debtor governments. Yet this is exactly what has been gradually happening over the past year.

Nigeria's decision to limit its debt servicing to 30 per cent of exports — little more than half the money required to pay all of the interest and principal coming due this year — may be less radical than the ceiling of 10 per cent of export earnings imposed by President Alan Garcia of Peru. President Babangida's plan is not, apparently, a non-negotiable ultimatum. It comes from a country which has serviced all its medium-term debts on time and has accorded banks preferential treatment, in relation to other creditors. Furthermore, as Nigerian officials have been at pains to point out, the 30 per cent target would still leave room for Nigeria to repay its debts much faster than most Latin American countries.

Nevertheless, the two countries' actions have a principle in common, which is more fundamental than all these differences; a principle which suggests that the increasingly self-confident debtor nations may have passed a turning point in their relations with the banks and the IMF.

Until last year, debt negotiations had been based on an axiom which was almost never questioned. Existing loan agreements were held to be inviolable, except when creditors chose to grant reschedulings or concessions to the debtors.

It was then up to the debtor government to "adjust" its economy in order to stay within its financing constraint.

When a country like Nigeria or Peru sets a target rate of debt servicing this procedure is effectively reversed. The country's ability and willingness to spend its foreign exchange earnings on debt servicing, rather than consumption or investment, becomes the dominant constraint in the negotiations. It is now the banks that have to "adjust" to this constraint—either by lending the country more money or by rolling over some of their interest payments.

As a by-product of this, the IMF has been losing its power over economic policies in debtor countries. For the first three years of the debt crisis, Mr Jacques de Larosiere, the Fund's managing director, was the only man who could harness the lending power of the banks on behalf of an approved debtor.

Today, the IMF's assistance seems less indispensable. The "basket cases" like Peru and Bolivia are effectively borrowing more from their banks than they would have got under IMF programmes, simply by witholding interest payments.

Richer countries like Brazil, Venezuela and Nigeria, on the other hand, are calling the bluff of bankers who insist that an IMF agreement is a precondition for any rescheduling.

Why is it that both groups of countries can now routinely defy the IMF and ignore the legally binding repayment schedules in their loan agreements? There is a mixture of good and bad reasons.

On the negative side, there is first the IMF's mixed record *of achievement with its adjustment programmes;*

Second, it has become steadily clearer over the last three years that banks cannot force sovereign debtors to stick to the letter of their loan agreements. Although the practical difficulty of enforcing sovereign loan contracts has long been taken for granted by the banks' own lawyers, it has only gradually been recognised by the bank managers and the debtor governments themselves.

More recently, even the "moral" link between punctilious debt servicing and financial probity has begun to fray. First there was South Africa, a country widely respected by bankers for its financial management, unilaterally suspending its principal repayments. Then came the governments of such unquestionable repute as Germany, the Netherlands and France, casually denying responsibility for the debts contracted on their behalf by the International Tin Council. Their ultimate defence appears to be sovereign immunity;

No Third World government has yet seen fit to use such arguments; but the worldwide trend towards greater flexibility in the treatment of sovereign obligations must be contributing something to the shift in the balance of power towards the debtor governments.

Fortunately, there is also a positive side to this shift. The IMF's *power* may have declined, but the *influence* of its ideas has spread even to countries which vehemently denounce it as an institution.

At the same time, financial markets in the industrialised world have gradually become less alarmist about the threat of Third World debt to the international banking system.

In combination, all these trends are making the debtor countries more self-assertive and the traditional style of debt negotiation less successful. However, their net effect may ultimately prove stabilising, rather than disruptive.

Why have financial markets *not been alarmed by Nigeria's* announcement of a debt service limit, or by Brazil's refusal to come to terms with the IMF? Largely because they are increasingly looking at the actual policies which countries are pursuing and the actual amounts of cash which they are likely to pay the banks.

Partly as a result, attention is also shifting from the financial to the economic implications of the debt crisis. This is the real significance of the call by Mr James Baker, the US Treasury Secretary, for "growth-oriented adjustment" in the debtor countries.

In the end, growth-oriented adjustment is bound to mean reducing the amount of money which Third World nations spend at present on servicing their debts. For it is clear that the present rate of debt repayment, involving very large net transfers of capital from Third World countries with huge unexploited investment opportunities to industrial countries with savings surpluses, is undesirable.

How these perverse investment flows can be reversed without disrupting the international financial system will be the central question in the next phase of the Third World debt problem.

Nigeria's and Perus idea of setting debt service ceilings in relation to export earnings has been widely discussed by other debtors at the *Cartagena Group* summits.

What would be the implications of such a move? The table shows several ways of ganging debt servicing-to-export ratios.

At first sight, any of the debtors' ceilings might seem to have horrendous implications for bankers. In 1985 Mexico, for example, was in theory supposed to spend 67 per cent of its export earnings on interest and capital payments (column 1), according to the detailed debt records compiled by American Express Bank. Against this figure, ceilings like the 30 per cent suggested by Nigeria, the 20 per cent discussed by the Cartagena Group or the 10 per cent proclaimed by Peru would seem tantamount to outright default.

In practice, however, the banks have invariably been willing to reschedule all the principal repayments for debtors accepting IMF programmes.

Given full rescheduling of principal, Mexico had to spend only 33 per cent of its export earnings on interest in 1985, according to American Express.

In fact Mexico did slightly better than this last year. Its current account surplus excluding interest—a figure which measures the amount of cash flow available for making debt payments—was equivalent to 35 per cent of export earnings (see column 2).

In relation to the figures for Mexico and most other countries in column 2, a debt service ceiling of 30 per cent would imply very little relief for most countries and few problems for the banks.

A 20 per cent ceiling, on the other hand, would involve a substantial reduction in debt servicing burdens and would reduce significantly the capital flow from the Third to the First World.

But would such a ceiling threaten the stability of the international banking system? This depends partly on whether debt payments above the ceiling were simply repudiated, or whether they were rolled over into new borrowing. In the latter case the banks could theoretically survive in the short term, as they did in the 1970s, when developing countries regularly borrowed more money each year than they repaid.

Nobody can say for sure how much additional borrowing the Third World countries could now undertake without jeopardising their own solvency even further, and the banking system's with it. Surprisingly to many laymen, however, most theoretical studies which have looked at this question conclude that the sustainable—and economically efficient—level of new borrowing would be very much higher than it has been over the past three years.

The third column in the table shows the most recent such set of results, based on work done at the World Bank by Mr Daniel Cohen.* The figures show the percentage of export earnings which various countries would have to devote to debt servicing in order to keep their total debt to export ratio on a declining trend.

The author's assumptions were deliberately extremely pessimistic—real interest rates of 9 per cent from 1985 onwards and export growth 1.5 percentage points below the World Bank's main forecasts. Yet his results still show that spending 20 per cent of exports earnings on debt service would be more than enough to keep all Third World debtors solvent, by his definition. The 10 per cent ceiling proposed by President Garcia, on the other hand, would be too low for Argentina, Brazil, Mexico and Peru itself.

Such calculations may not cut much ice with bankers terrified of total default by some crazed Third World dictator. They may also seem over-optimistic to Latin American politicians determined never to put their nations in hock to foreign creditors again. But they do suggest that a wide range of rational compromises must exist to reconcile the needs of both the debtors and the banks.

** How to evaluate the solvency of an indebted nation, by Daniel Cohen. Economic Policy Vol. 1. Cambridge University Press.*

DEBT SERVICE INDICATORS

(As % of total export earnings, 1985)

	Debt service ratio*	"Cash flow" ratio†	"Solvency" ratio‡
Argentina	136	24	16
Brazil	47	39	15
Mexico	67	35	12
Nigeria	37	17	3
Peru	87	22	11
Venezuela	37	42	5

* Interest and capital repayments due in 1985 as percentage of export earnings. † Current account surplus, excluding interest payments, as percentage of export earnings. ‡ Total debt payments required to maintain long-run solvency (see text).

Source: American Express estimates and "Economic Policy," Vol. 1.

Men and Matters

Fanshawe flies for Westland

A man who has played a backstage but influential role in the Westland affair is Lord Fanshawe, formerly Sir Anthony Royle, one-time Conservative MP for Richmond.

Over the past two months, Fanshawe, a non-executive director of Westland, has acted as Sir John Cuckney's right-hand man and lobbyist, as the beleaguered chairman has tried to steer a course through warring Whitehall departments.

Fanshawe's connections with senior Conservatives have proved most useful. He spent 24 years in the House of Commons, and was for five years a vice-chairman of the party between 1979 and 1984.

Fanshawe and Cuckney have fought on the same side before —notably at Brooke Bond, the tea company taken over by Unilever in 1984.

Sir John was chairman of Brooke Bond at the time, while Fanshawe's non-executive directorship went back more than 10 years.

He is a smooth operator, his friends say, skilled at political in-fighting and adept at survival. His experience running the Conservative Central Office international office helped these facets of his character.

In the present fight, however, his military background may count for more. Just after the Second World War he spent three years with the 21st Special Air Service Regiment.

Merry-go-round

The disentanglement of Gartmore Investment Management (which controls more than £2bn of funds) seems complete with its return to being a wholly-owned subsidiary of British and Commonwealth Shipping, and its latest round of board changes this week.

William Matthews, group MD of money brokers Exco International has resigned from the board, leaving a top management now composed of B and C men, and Gartmore executives.

The merry-go-round has turned for Gartmore in the last two years eight months and deposited it back in the hands of its original owners.

B and C bought back Exco's 50.1 per cent interest two days before Christmas. Exco had bought that stake from B and C in May 1983.

A 29-year-old Gartmore executive, Adrian Collins, who has made his name building up the unit trust operation, was made MD of the whole business by Exco. Last April Collins abruptly departed closely followed by a senior colleague, Peter Rintoul.

Three months ago John Gunn, the Exco chief executive himself resigned. Soon afterwards he became a director of B and C.

The disentangling of the Exco and B and C business interests proceeded swiftly from then on.

A sharp decline in the 1985 Gartmore profits was disclosed by Exco last month. At the same time Exco outlined plans to sell its Gartmore holding back to B and C—while B and C agreed to sell its stake in London Forfaiting to Exco, and its 22 per cent stake in Exco to the Kuwait Investment Office.

Spliced

Further to my story last week of retrenchment at Twentieth Century Fox in Britain, it is now confirmed that Fox has merged its UK distribution interests with those of Walt Disney.

The new company is to be known, somewhat grandly, as UK Film Distributors and is based on an existing, limited joint venture formed in 1982. Gerard Lefevre, who has worked for Fox in France for the last five years, is to be chairman.

Fox rejects the suggestion that closing its own London distribution company represents a slimming down of its UK activities. Rather, a spokesman says, it is a question of the "further integration" of joint operations.

Not, to be sure, that there is any shortage of money in the film world. News reaches me from Hollywood that Frank Rothman, chairman of Metro Goldwyn Mayer, is to give up the burdens of his great office in return for a suitcase full of ingots mined from the silver screen—$1,112,534 is the value of his farewell package. MGM itself is heavily in debt.

"Do you get the feeling that the British would really prefer a fixed link under the Atlantic?"

Fresh appeal

A batch appointment of three new Law Lords (Ackner, Oliver and Goff) this week is expected to be greeted with general approval by the Bar.

All three have the reputation of being sound judges—and they lack the lawyer's usual *lofty* condescension.

Lord Oliver's appointment was not unexpected. An ex-Chancery judge, aged 64, noted for uncharacteristically clear rulings and with a potential for careful creativity, his appointment had been forecast since the death of Lord Diplock last year.

The other two vacancies arose as a result of the unexpected retirement this week of Lords Scarman and Roskill. Lord Ackner, aged 65, whose promotion will come as no surprise to bench-watchers, has been heard to claim that he never reads law reports in the newspapers. Having built up his reputation as a defamation lawyer, he is not afraid to open his mouth. Last year, he openly criticised the Government's proposal (later defeated in the House of Lords) to end the applicant's right of appeal in judicial review cases.

Lord Goff, at 60, is the youngest of the trio, and is probably one of the most well-liked judges on the circuit. He was, and remains at heart, an academic. He is mercifully concise in his deliberations.

All three are strong judges in their own way and are young by House of Lords standards. They form a powerful combination of common sense, integrity and intellect.

Roll play

A side of Arthur Scargill that has previously escaped national attention is that of the president of the National Union of Mineworkers as connoisseur of the arts. Yesterday, Scargill made good this deficiency in the public's knowledge of his complex personality.

Gazing at a two-room "environment sculpture" by the German artist, Joseph Beuys, comprising mainly rolls of felt but including a grand piano, a blackboard and a thermometer, the leader of two-thirds of Britain's miners likened it to a colliery.

The felt, he mused further, represented isolation, the piano sound, the blackboard (with musical staves) a means of transposing this sound and the thermometer — well — change and reaction to change.

"Of course," he added, "many people would say this is just a load of carpet rolls."

Observer

Arafat under pressure

Why the PLO's divisions block the path to peace

By Tony Walker in Amman

Mr Arafat: finds himself isolated.

THESE are trying times for Mr Yassir Arafat, chairman of the Palestine Liberation Organisation. He now finds himself dangerously isolated in Arab forums, and perhaps more ominously, there are increasing signs of restlessness among his constituents in Lebanon, in the Gulf and in the occupied territories.

Mr Arafat's failure effectively to join the peace process with King Hussein under the terms of an accord agreed by the two on February 11 last year is contributing to disillusionment among moderate Palestinians.

The Jordanian-Syrian reconciliation, including the recent summit between King Hussein and President Hafez Al-Assad, is probably adding to Mr Arafat's discomfort as he surveys bleak prospects for 1986.

A rebirth of Syrian prestige in Arab forums, brought about by its tentative accommodation with Jordan plus possible success in ending more than a decade of bloodshed in Lebanon, is not something Mr Arafat can look upon with equanimity. The recent rash of Middle East-related violence has helped to undermine Mr Arafat's position, demonstrating as it does his inability to control disparate elements of the Palestinian movement.

The hijacking of the Italian cruise liner, Achille Lauro, by a group linked with the PLO chairman, dismayed many Palestinians because it reduced the momentum towards peace and at the same time neutralised the adverse publicity Israel had attracted over its October 1 raid on the Tunis headquarters of the PLO.

Mr Arafat's allegations, in a newspaper interview published at the weekend, of Syrian and Libyan backing for Palestinian dissidents aimed at discrediting the PLO and hindering the peace process, reflect his concern at the negative effects on his prestige.

PLO officials, Western observers, specialists on the PLO and Arab diplomats interviewed recently in various Middle East capitals give a view of the Palestinian movement as weaker, more fractured, less relevant and more adrift than it has been for years.

Last year, which began with promise of progress towards peace after the signing in Amman of the February 11 accord, ended in disappointment. There is a real sense in Middle East capitals of lost opportunity.

Last November in Baghdad, Mr Arafat's mainstream Fatah faction failed to agree on a clearcut response to King Hussein's demand that as a way of removing one of the main barriers to peace it accept UN Security Council resolutions 242 and 338 which imply recognition of Israel's existence within pre-1967 war boundaries.

The PLO has always objected to the UN resolutions on the grounds they do not address the question of the Palestinian right to self-determination, treating the problem as merely one of refugees.

In Amman, a Western observer said the PLO is facing the worst of all possible worlds. It is neither engaging in the peace process, nor is it taking steps to heal rifts with factions, based in Syria, opposed to Mr Arafat's leadership.

The danger, said the Western official, is that the PLO mainstream has been immobilised—on one hand by its inability to accept the Hussein strategy for peace, which involves compromise on matters of principle, and on the other by Syrian antagonism.

King Hussein appears resigned, for the time being, to living with PLO hesitation over the terms for it joining the peace process. His gesture of reconciliation towards Syria is aimed in part at broadening participation in and support for peace efforts within the framework of an international conference. The King needs Palestinian support for such a venture, hence the continuing, though faded, relevance, of the February 11 accord.

Jordanian officials are saying there are, nevertheless, time limits on Mr Arafat delivering on his side of the bargain. These officials note ruefully that the PLO chairman was expected in Amman weeks ago. His continuing absence is regarded as unpromising.

If Mr Arafat is unable to deliver, the King will come under renewed pressure to find alternative Palestinian representation in any peace process—still a highly notional concept—a course he would embark on with extreme reluctance because of the risks involved.

Still, there are powerful forces in Jordan which would not be averse to seeing Mr Arafat dumped or, alternatively, moved aside, perhaps to the largely ceremonial post of president of the Palestine National Council—the Palestinians' parliament-in-exile—in place of the aged Sheikh Abdul Hamid Sayegh.

Critics of Mr Arafat—and some of the most trenchant can be found among Palestinian moderates—claim that he has ruptured the PLO and contributed to its present weakness: that rather than being a symbol of unity he is the cause of division. He should step aside, they say, to encourage a process of reconciliation.

Mr Arafat gives no sign of relinquishing control of the organisation he has headed since 1969, and there appears no serious challenge to his authority from within his own Fatah mainstream.

His leadership, he said recently, was reconfirmed according to the PLO's democratic processes at a meeting of the 17th Palestine National Congress in November 1984. Certainly, in a legalistic sense, only the PNC which is the PLO's Parliament, can reject or select the PLO chairman. However, in the Middle East political pressures can sometimes explode in a way which by-passes recognised constitutional paths.

Mr Arafat cannot, however, be completely sanguine about his hold on power. If his strategy of negotiation, and limited guerrilla activity causes further divisions in the Palestinian movement, his position within his own Fatah mainstream may become precarious.

If peace efforts collapse and there is a shift towards the uncompromising Syrian-based militant Palestinian groups, then Mr Arafat's position could become untenable.

Within his own Fatah organisation no clear leadership alternative presents itself. Abu Iyad and Farouk Khaddoumi, head of the PLO's political department—both more hard-line than Mr Arafat—have support from quarters in the movement independent of the chairman, but may have trouble finding sufficient favour on the moderate wing of the organisation. Abu Jihad, who is in charge of military operations and is perhaps Mr Arafat's closest associate, has broader appeal.

Mr Arafat has, in the past, defied predictions of his demise—either political or physical—when his position appeared more precarious than now.

In Beirut during the summer of 1982 he was under seige for several weeks by the Israelis; in the autumn of 1983 he was again ferried out of Lebanon in the face of a determined assault by Palestinian dissidents backed by Syria; and only last October he was reported to have narrowly missed death when Israel bombed the PLO headquarters in Tunis.

Many observers in the Middle East believe, however, that the end of a political era is approaching, and that a watershed in the Palestinian cause is in sight. In Palestinian circles, there is talk of a post-Arafat generation. What this will bring is unclear, but it may lead to a hardening of Palestinian attitudes. King Hussein's persistent and gloomy prediction that a "last chance" for peace is being squandered may prove correct.

Exchange rates

The strains of linking sterling to the EMS

By Peter Robeson

THE CASE for sterling's participation in the exchange rate mechanism (ERM) of the European Monetary System was examined last year by the Treasury and Civil Service Committee, which voted for procrastination. The opposition seemed to be based principally on concern lest sterling should be tied at too uncompetitive a rate to the D-mark.

A devaluation bias to seek to improve UK competitiveness is not, however, the best — or even a good — argument for staying out: as the London Business School pointed out last October, there are strong arguments for *going in* at an apparently uncompetitive rate because past experience suggests only *in that situation* do we make progress in reducing our inflation rate to German levels. Sterling has fallen by about 7 per cent against the D-mark in the meantime, and this will renew calls for the pound's participation. But there is a better reason for deferment — one which merited only four paragraphs in the committee's report: sterling's position as an international currency.

The LBS saw this point. "If we joined . . . we would be attempting to link two freely-floating international currencies" (the pound and the D-mark) "with open capital markets." But it was then drawn off on to a tangent—offering a solution of the sale of oil bonds to Britain's EMS partners to counter the effects of oil-price-related capital flows. This is not the answer. Foreign exchange dealers would not necessarily behave in the economically rational way suggested. As oil and other commodity prices move together, so the effect of oil prices on sterling will be cancelled out. Sterling is not just an oil currency — despite recent concentration on this aspect — and its price is susceptible to a wide range of other influences which change in weight constantly in response to both reason and fashion.

Since capital flows bulk even larger than trade payments, there are currently only five major international investment currencies—the US dollar, the yen, the D-mark, the Swiss franc and sterling. All float relatively freely against each other in a market heavily influenced by exchange rate expectations. Each of them needs a considerable degree of exchange rate elasticity to absorb the buying and selling pressures that fluctuate enormously throughout each trading day. The potentially stabilising influence of the Group of Five is still a very long way from being able to "smooth" markets effectively and continuously even if that were an objective to which all the respective governments were committed.

None of the other currencies participating in the ERM of the EMS—apart from the D-mark—falls into this major category so that the EMS bloc itself can be virtually insulated from the cross-currents that arise particularly from international investment considerations. The ERM as presently constituted is actually a D-mark block with the other ERM currencies floating narrowly up and down on the D mark's dollar rate tide.

The ERM has enjoyed a long period of internal stability but mostly because of a very strong dollar and weak D-Mark. To date, the dollar's decline, under G5 intervention influence, has not provoked *internal* EMS strains. This owes much to the emphasis placed on the yen/dollar aspect and, in smaller degree, to such EMS economic convergence as has taken place. If sterling had been in the ERM, the past would not have been so peaceful and the immediate future prospect—particularly if the dollar were to make a further downward lurch—would almost inevitably include a major speculative attack on whatever (fixed but adjustable) ERM sterling/D-Mark parity had been agreed upon, with the market having access to almost limitless ammunition.

The choice of parity for entry would clearly pose a—largely political — problem and one aggravated by the wide divergence of economically well-informed and data-supported opinion about the appropriate level. Since such parities are adjustable as well as fixed, particularly in this case, it would be bound to be seen as a target to be shot at. The battle to contain such speculation and the eventual adjustment, with all their accompanying measures, could be extremely disruptive to both the UK and German economies. Indeed, it could delay or even destroy further progress towards a more general stabilisation of the major exchange rates that has been generated by the G5 initiative and which is so important to the world economy.

Last summer Mr Pierre Languetin, the president of the Swiss National Bank, while urging a move towards a zone of monetary stability in Europe, made it clear that he had no wish to set limits for the movement of the Swiss franc against either the dollar or the D-mark. The National Bank wants to *preserve its discretion* to assess any given situation. Such a stance seems equally appropriate for the UK in present circumstances. As an FT editorial pointed out in November, Mr Volcker has been remarkably successful in conducting an old-fashioned discretionary monetary policy and, with the decline of the Fed's reliance on monetary aggregates also, there is much to be said for a similar approach to the anti-inflationary stance by the British Government in which the renewed emphasis given to the exchange rate is restored to the "hidden hand" and is not made a hostage to fortune in the form of a posted price range.

There are other considerations. Greater economic convergence is needed—specifically to prevent repeated currency realignments—and other states, notably France and Italy, must abolish their capital controls.

But most importantly, the G5 initiative has, after all, made progress. The Americans have at last been persuaded to join concerted arrangements for a controlled descent of the dollar and the Japanese have started to open up their economy. Both initiatives are delicate plants in potentially hostile environments. It would seem much more sensible to nurture them carefully rather than introduce into the scheme of things a development which at this stage could trigger disruptive activity that might endanger the more general—and much more important—progress towards stability.

The author was a member of the Foreign Exchange department of the Bank of England until 1974 and foreign exchange adviser to Barings until 1982.

Letters to the Editor

Liability of directors

From Mr C. Morris

Sir,—As an accountant practising in an area where fraud is frequently encountered, I have read with interest the many features and articles on this topical subject. It appears to me that one fundamental aspect has been overlooked by those concerned which, if given proper consideration and an appropriate simple amendment in legislation, could greatly assist in obtaining convictions of those guilty of fraud.

I am referring to the liability of directors to maintain and preserve corporate records. Such vital data are the foundation of any successful prosecution, but the penalties under existing legislation for failure to observe the law in this regard are substantially less than those for the crimes which the records would reveal. It, therefore, follows that any director who has committed a fraudulent act is better off destroying the evidence against him or failing to record properly the transactions concerned.

In the United States failure to maintain and preserve corporate records is, I understand, a most serious offence visited with the most condign punishment. Would it not be appropriate for similar legislation to be introduced in this country as a matter of urgency?

C. Morris
(National Director,
Insolvency Services).
Touche Ross & Co,
PO Box 137, Hill House,
1, Little New Street, EC4.

Building society activities

From the General Manager, Halifax Building Society

Sir, — In his letter of January 3 Mr R. S. Gerrard expresses some concern about the proposed extension of building societies' activities.

Mr Gerrard does appear to misunderstand the basis of the composite rate of tax. The composite tax rate arrangements are designed to ensure that the Inland Revenue receives the same amount of tax as it would if savers were assessed individually on the interest they received. The arrangement saves paperwork, and is therefore beneficial both for savers and for the Inland Revenue. It does generate an average tax rate below the basic rate of tax, but this is of no competitive advantage to building societies since the same composite tax arrangements now apply to savers with banks. Mr Gerrard's argument that composite tax should only be allowed for institutions which lend exclusively for housing would therefore have to be applied to the clearing banks!

Mr Gerrard argues that building societies may lack the necessary expertise and capability to engage in unsecured lending. This is certainly an area of higher risk than much of our current business, and societies will need to proceed cautiously and prudently, building a solid foundation of relevant expertise, as the banks have done over time as they have worked towards their current near-monopoly position in these markets.

Reference is made to the costs of cash handling, which could of course increase with more money transmission activity. Any cash handling services provided for building societies by the banks, or, by any other third party, will of course have to be paid for by societies, as is the case at present.

Mr Gerrard also refers to the possible involvement of societies in industrial lending. This is not a power which societies have specifically sought, nor a service which government has suggested we might offer. Our understanding has been that this market at least was well supplied by the banks: indeed spokesmen from the clearing banks have often asserted that the problem lay in a shortage of worthwhile investment opportunities, not in a lack of funds.

Most building societies will now be devoting considerable resources to a careful consideration of the new powers which may become available over the next few years. The approach of the Halifax to the use of these powers will combine our traditional prudence and care with a desire to establish a new presence in some markets where the public will benefit from new and healthy competition.

D. Gilchrist.
PO Box 60, Trinity Road,
Halifax, W. Yorks

No more need for nuclear tests

From Professor F. Pirani

Sir,—Your Science Editor puts a curious gloss (December 27) on the continuing dispute over nuclear testing. "In another five years or so," he writes, "there may be little need of more nuclear test explosions by the US and Britain and perhaps by the Soviet Union too."

Many specialists would have it that there is already no more need of test explosions. For example, in a letter to a House of Representatives Committee, published last May, Norris Bradbury, former director of the Los Alamos weapons laboratory, and seven other experts, wrote "Continued nuclear testing is not necessary in order to insure the reliability of the nuclear weapons in our stockpile."

In the US, the demand for continued testing comes primarily from the weapons laboratories themselves. Weapons are currently being designed on the deliberate, and unnecessary, assumption that continued testing will always be possible. This design policy, which represents a reversal of an earlier one, probably emanates from the office of Richard Perle, Assistant Secretary of Defence for International Security and leading hawk of the Reagan Administration.

Verification of test bans is no longer a central issue. With properly deployed seismic arrays, muffled explosions down to one kiloton can now be detected. US and Soviet testing practices over the past five years show that tests of military significance are almost all over five kilotons. A low yield treaty, applicable to both sides, is technically within reach now, and would do much to build international confidence in further measures of arms control and disarmament.

(Professor) F. A. E. Pirani.
via di Monte Giordano 58,
00186 Rome,
Italy.

Prepare for a Channel link

From Alderman J. Gouldbourn

Sir,—Mr M. J. Kent (December 31) has put his finger on the most important economic factor for the British Isles future when he says, "now is the time to be planning the new networks and policies."

County councils spent 20 years preparing their strategic plans—not one used a Channel tunnel as a planning assumption or welcomed the "toll" principle.

British political parties have proved particularly inept at forward thinking or engineering boldness. Take the Barton bridge over the Manchester Ship Canal, the county engineer and bridgemaster wanted a four-lane crossing at the conception stage, but the notion was rejected by HMG. Now route pressure is so great, that the additional lanes are to be constructed. At Runcorn, on a motorway spur, the position has seen a dramatic increase in traffic since the construction of the fixed high level road. Car sales continued unchecked!

Now what is required is an alternative road network to western Scotland, to the west of the M6 system over Shap.

Lancashire County Council has made some forecasts of what a toll road, over a Ribble barrage, could mean to the Liverpool to Heysham area, while in 1967 the Water Resources Board completed feasibility studies for a Morecambe Bay barrage and Solway crossing, which should be reconsidered before even a penny is committed to new methods of crossing the English Channel.

Private enterprise looks like getting its priorities wrong if it commits private funds to a Channel tunnel before getting the receptive infrastructure in place, based on overall cost benefit considerations.

(Alderman) John E. Gouldbourn.
6 Queen Mary Avenue,
Lytham St Annes,
Lancs.

Inflation accounts

From Mr P. Boyle

Sir,—In common with Mr Edge-Partington (December 27) I am disappointed that the accounting standards committee is to ask the Government to introduce legislation to compel companies to publish inflation adjusted accounts, although for rather different reasons.

I am disappointed to learn that the ASC has been unable to persuade preparers and users of accounts that inflation adjusted accounts are of considerable value in presenting an alternative view of a company's financial performance and position compared to that shown by historical cost accounts. There are several methods for measuring financial performance and position, each of which is subject to certain limitations and deficiencies. It is misleading to suggest that traditional historic cost acounts are the only suitable measures of financial position.

I am also disappointed to read that Mr Edge-Partington has reintroduced the red-herring of company taxation into the debate about preparation of accounts. The measurement of financial performance and position is, in principle, quite a separate matter from that of taxation. In any case, as a practical matter, it must be doubted whether the Chancellor of the Exchequer would permit a shift in the burden of taxes on the corporate sector merely because of a change in the basis of preparing company accounts.

Paul V. Boyle,
185 Milngavie Road,
Bearsden, Glasgow.

FINANCIAL TIMES
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SUHARTO TACKLES ECONOMIC SETBACKS WITH AUSTERITY BUDGET PLAN

Painful year ahead for Indonesia

BY CHRIS SHERWELL IN SINGAPORE

INDONESIA, Asia's principal oil and gas exporter, faces its most painful year of austerity for well over a decade under a draft 1986-87 budget presented to parliament yesterday by President Suharto.

Falling world petroleum prices have dramatically undercut the resources of the state, which depends on oil and gas for 70 per cent of its export earnings and, until now, for 60 per cent of its revenues.

The result is an upset for the current 1984-89 development plan, which is designed to lead Indonesia to economic "takeoff" in the 1990s, and a setback for President Suharto, the "father of development," who has ruled the country's 165m people since the mid-1960s.

The outlook is increasing hardship at an awkward time – a general election is due next year. "A difficult and hard field of struggle stretches out before us" President Suharto said yesterday.

The balanced budget, which comes into effect in April, offers a 7 per cent cut on last year's spending to Rp 21,420bn ($19.1bn) the first decline for at least 14 years. That is fully 27 per cent lower than the Rp 29,400bn level projected when the five-year plan was announced two years ago.

Development spending suffers the most. At Rp 8,300bn, it is down 22 per cent on the 1985-86 figure and 46 per cent below the projected level.

The other main features of President Suharto's budget speech and accompanying economic figures were:

- Oil and gas revenues will fall 12.7 per cent to Rp 9,740bn, outpacing a 7.7 per cent rise in non-petroleum revenues to Rp 8,100bn. Revenues from foreign aid and credits will also fall significantly, by almost 18 per cent, to Rp 3,590bn.
- Debt repayments, up 18.7 per cent at Rp 4,220bn, will become the biggest component (close to a third) of the Government's recurrent expenditure, fractionally larger than all personnel expenditures. Almost all the total is to repay foreign debts. Overall recurrent expenditure is to rise by 5.9 per cent.
- Only one economic sector – regional development – shows an increase in development spending, to Rp 940bn. Four other sectors – education, agriculture, mining and energy, and communications and tourism – retain spending levels above Rp 1,000bn, but the cuts range up to 25 per cent. There would be no new projects in 1986-87, the President said.
- The current-account deficit of the balance of payments is projected to weaken marginally to $2.2bn. Exports are expected to fall slightly to $18.94bn, as are imports to $13.04bn. The deficit on services is forecast to increase to $8.12bn.

President Suharto offered no projections for growth, which economists expect will dip below the development plan's target of 5 per cent in calendar 1985 and weaken further this year.

The country's foreign-exchange reserves, he said, were "quite adequate" at $10.7bn. He also firmly ruled out a devaluation of the floating rupiah, a subject of continuing speculation as weakening oil hurt rupiah revenues.

Looking ahead, the President said there was a need to increase state revenues for domestic resources and to make development spending more efficient. He added that the liberalised banking sector should mobilise more funds.

Although the Government's accumulation of unspent revenues from past years has clearly tended to dampen the economy, President Suharto said existing projects would actually be stretched out rather than speeded up.

Commodities, Page 26

Fermenta negotiates Volvo drugs takeover

By Kevin Done, Nordic Correspondent, in Stockholm

FERMENTA, the fast growing Swedish biotechnology and fine chemicals group, is negotiating the takeover of Volvo's interests in the pharmaceuticals industry in a series of deals that might be worth between SKr 2bn ($263m) and SKr 3bn.

Trading in the shares of six companies, Fermenta, Pharmacia, Sonesson, Gambro, Dacke and Leo, was halted temporarily on the Stockholm stock exchange yesterday in advance of an expected statement from Fermenta this afternoon.

Volvo confirmed yesterday that it had reached the final stages of negotiations with Fermenta, but both sides refused to disclose details.

According to Swedish newspapers, Fermenta has been negotiating the takeover of Volvo's substantial minority stakes in both Pharmacia, Sweden's second largest pharmaceuticals group, and in Sonesson, the conglomerate that includes the Leo and Ferrosan pharmaceutical groups.

The deal is expected to be financed chiefly by the issue of Fermenta shares, which would leave Volvo as the second largest shareholder in the company after Mr Refaat El-Sayed, chief executive and majority shareholder in Fermenta. The acquisitions might be the first stage in a radical restructuring of the Swedish pharmaceuticals and biotechnology sectors, with Fermenta assuming a key role with backing from Volvo, Scandinavia's biggest industrial corporation.

Volvo has been building a number of strategic – although hitherto unconnected – stakes in the sector and currently holds 21.1 per cent of the votes (5.1 per cent of the equity) in Pharmacia, Sweden's second largest pharmaceuticals concern with estimated sales last year of SKr 3.45bn.

In addition, three investment companies closely allied to Volvo, namely Skanska, Custos and Cardo, own a further 19.2 per cent of the votes in Pharmacia and 6 per cent of the equity.

The Pharmacia management is unlikely to welcome the bid from Fermenta, but Volvo has been increasing its influence in the company and is believed to have been instrumental in the ousting of Mr Gunnar Wessmann as chairman last summer.

Fermenta's interest in Sonesson lies chiefly in the 74 per cent holding in the pharmaceuticals company, Leo and its subsidiary Ferrosan. Leo, which was launched on the stock exchange last November, performed strongly last year, with estimated sales of SKr 800m and profits, after financial items, of around SKr 190m.

An important factor in Fermenta's whirlwind expansion has been a number of takeovers it has subsequently managed to finance largely through the disposal of unwanted peripheral activities in the newly acquired companies.

It is expected that the pattern might be repeated with Sonesson, the main operations of which were in light engineering before it began to diversify into pharmaceuticals and medical equipment with the takeovers of Leo, Ferrosan and Gambro.

The Sonesson concern has market capitalisation of some SKr 2.46bn, while Pharmacia has a market value of SKr 8.25bn.

Mr El-Sayed has expanded Fermenta at breakneck speed since he took over the company at the beginning of 1982

STOCKHOLM'S stock market soared to a peak yesterday despite the suspension of the leading pharmaceutical stocks as investors remained optimistic on short-term economic strategy and lower interest rates after the release of the Government's 1986-87 budget on Friday. Prices of banks and financials jumped while engineering and forestry issues made good progress. European bourses, Page 34

THE LEX COLUMN

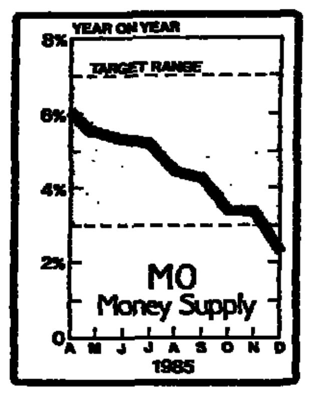
No medal for good conduct

If anyone still believed that money supply figures were a reliable indicator of monetary conditions, let alone future interest rates, they would have been disillusioned yesterday. We are now supposed to take little notice of the growth in sterling M3, which at an annual rate of 15 per cent, is way above its target range. But bank lending to the private sector has now risen worryingly for three months in a row. At the same time that bank lending is sending warning signals about over-rapid monetary growth, Mo, the narrow measure of money supply, is behaving rather too well. Yesterday's figure was distorted downwards enough to make Mo fall right through the bottom of its target range, but even without the distortion it would still be scraping along at the minimum rate.

The Treasury would like the financial institutions to take more notice of Mo, but has so far managed to induce little enthusiasm. Analysts are understandably reluctant to believe that a measure consisting almost entirely of notes and coins will be a reliable leading indicator of inflation. If consumers prefer to take cash out of a hole in the wall rather than write a cheque to pay for goods in the next-door shop, common sense suggests that they cannot be adding to inflation. Nor are they likely to suppress price rises by buying their Marks & Spencer underwear with a charge card instead of a £5 note.

Rather than using Mo as a leading indicator of inflation, the institutions might take it just as a guide to future interest rates, if only on the basis that the Treasury believes in it. But if the market were to rely on Mo alone for an assessment of monetary conditions, it would have to conclude that they were too tight and that interest rates should fall.

Unfortunately for the Confederation of British Industry – the employers' organisation – this would be a foolish conclusion to draw. With sterling moving dangerously close to DM 3.50, the last thing the Government wants is lower interest rates; quite the opposite. Yesterday, the three-month interbank rate, at 12 per cent, was half a percentage point above base rates and the markets were at least considering the possibility of a base rate rise to pre-empt any further slide in sterling. Oil price fears are a problem outside the Government's control; but while sterling remains vulnerable



to them, Mo can behave as well as it likes without inducing the Treasury to loosen the monetary reins.

Hanson/SCM

US takeovers are rarely won or lost until every legal avenue has been thoroughly explored but, after the appeal court's rejection of the Merrill Lynch lock-up option, SCM seems at last to be stuck in a judicial cul-de-sac. The most recent judgment enabled Hanson to pick up roughly 30 per cent of SCM's equity from the arbitrageurs, taking its holding to around 60 per cent. Even a successful appeal to the International Court of Justice would be unlikely to secure SCM a means of escape.

The Hanson/SCM farrago is the best advertisement imaginable for the rough and ready justice of the UK Take-Over Panel. Since a lock-up option is expressly designed to make the target company less attractive to a bidder, it does not take a fair-value expert to work out that the assets are probably being sold on the cheap. Yet it is not so easy in this instance to argue that directors have acted against the best interests of shareholders simply because, without the lock-up, Hanson would not have raised its offer from $72 to $75 a share. To resolve this kind of paradox requires, not a court room, but common sense.

To judge from SCM's published figures, Hanson is paying a high price for a very basic business. The exit multiple is about 13 times and there will be a heavy write-off of goodwill. But Hanson has always valued the poetry of cash flow above prosaic old earnings and, by its own yardsticks, must reckon to have made a good deal.

Hanson has consistently argued that the outcome of the SCM bid would have no bearing on its plans for Imperial Group and is unlikely to change that position now. But, as the pro-forma Hanson/SCM balance sheet will show debt representing around 45 per cent of equity even on a fully diluted basis, there must be less chance than ever that Hanson will sweeten the Imperial terms with cash.

Since the London equity market was swamped with Hanson paper last summer in order to provide cash for takeovers, it may have reservations now about a cashless bid for Imperial. As Hanson's equity has underperformed the market by almost a quarter in the past year, the debt arising from success in New York will make the task in London that much more difficult.

Beazer/French Kier

Beazer's revised offer for French Kier may not have had quite enough punch to persuade the latter's management to promise to run the business for new owners but the market had no doubt at all how French Kier's shareholders would vote. Having been rebuffed at Bath & Portland and SGB, Beazer evidently has no intention of letting a year slip by without some large excursion into a new area of the building business and the exit cash price/earnings multiple of 12 times French Kier's forecast 1985 earnings would be generous even without the 20p discount in the new Beazer shares for the underwriting institutions. French Kier closed unchanged at 285p, bang in line with the cash offer.

On that basis, Beazer may just escape any dilution in earnings on an equalised year end to June; and those institutions that have followed Beazer can be sure that, at the very least, French Kier's housebuilding land bank will be more intensively used. Whether French Kier's managers will stay to assist Beazer into international contracting will be a pointer to whether a company, on the verge of the top 10 of the UK construction sector, can continue to expand easily, say into building materials. French Kier's insistence that non-executive directors should have more to say points up the Napoleonic nature of Beazer's management; but it does not sound an insuperable barrier to recommendation.

US rules out Libya military action

Continued from Page 1

Libya, except for food and medicines, require export licences. These are generally denied for high-technology and defence items, and for oil and gas equipment not readily available outside the US.

Our Foreign Staff writes: Mr Shimon Peres, Israel's Prime Minister, yesterday urged comprehensive economic sanctions against Libya, saying there was no need to go to war.

"There is no need to declare war against Libya," he said. "It would be enough just to impose economic and legal sanctions."

The Israeli leader's remarks indicate the preferred option in Jerusalem is for broad-based sanctions against Libya. There is little enthusiasm for Israel to fulfil the role of "international policeman" in dealing with Libyan-sponsored violence.

Mr Peres is to visit Britain from January 21-26, it was announced yesterday. It will be the first official visit by an Israeli Prime Minister since the trip by Mr Menahem Begin at the end of 1977.

Apart from talks with Mrs Thatcher, the Prime Minister, and Sir Geoffrey Howe, the Foreign Secretary, Mr Peres is due to meet opposition leaders

A large part of his talks with Mrs Thatcher will inevitably be devoted to Middle East developments with the Israeli Premier stressing the need for effective international action against terrorism.

Israel was sharply critical of the decision by Mrs Thatcher in September to invite two members from the executive committee of the Palestine Liberation Organisation to London for talks with Sir Geoffrey Howe.

Although the scheduled meeting did not take place, Israel was deeply concerned that the invitation marked a significant shift in British policy.

UK ministers attempt to cool political row over Westland

BY PETER RIDDELL, POLITICAL EDITOR, IN LONDON

MR MICHAEL HESELTINE, the British Defence Secretary, and Mr Leon Brittan, the Trade and Industry Secretary, yesterday tried to lower the political temperature of the public row over the future of Westland after the sharp exchanges of the previous two days.

Both men avoided making public statements although the propaganda of both sides continued. In particular, there was an embarrassing admission by Mr Patrick Jenkin, the former Environment Secretary, that he had been asked by Mr Brittan publicly to air his views which turn out to be highly critical of Mr Heseltine.

The Defence Secretary has followed his decision to stay in the Government, rather than to make the affair a resignation issue, with an apparent switch in tactics towards not rocking the boat.

The revised offer from the European consortium is seen by his allies as vindicating his position since in practice the company's shareholders will be faced with the choice of two options when they vote next Tuesday on the Sikorsky/Fiat proposal.

Consequently, since the issues have now been made clearly known, the level of campaigning may now be less public and more discreet, though many ministers and Members of Parliament remain puzzled why Mr Heseltine has gone so far out on a limb.

There also now appears to be a general desire to avoid any confrontation at the Cabinet meeting tomorrow and all sides now seem more relaxed than before though there may be calls for no more public statements.

Mr Brittan was said yesterday to be getting on with the running of his department with a visit to a company in Reading.

However, ministerial protestations about not taking sides were exposed yesterday when Mr Jenkin admitted on a BBC radio programme that he had found himself "talking to Leon yesterday and he raised the issue and we talked about it and he said: 'well, it would be very useful if perhaps you were to say that,' and I thought that would be a proper thing to do." This candour followed Mr Jenkin's comment that it was "more and more difficult to understand Mr Michael Heseltine's case." He thought that the Defence Secretary had put himself out on a limb to the point where his case had become almost untenable.

European groups raise offer

Continued from Page 1

drive to fight off the Sikorsky offer.

Mr Matre said that a Sikorsky "takeover" would represent only the second time – following the acquisition by Boeing of De Havilland of Canada a few weeks ago – that a national aerospace group had passed under foreign control.

Mr Matre, announcing a sharp rise in the company's new orders last year to FFr 34.5bn ($4.6bn), said the Westland board's refusal to present the rival offer to shareholders "escapes my logic." He added that it was "unacceptable" and "unimaginable" that Sikorsky/Westland could stay in the NH-90 European collaborative venture, unless the US decided to join what has until now been a purely European project, which, he said, was highly unlikely.

The consortium expressed "regret and surprise" at the Westland board's decision not to allow a vote on their revised offer and urged shareholders to vote against the Sikorsky/Fiat proposal at an extraordinary general meeting (EGM) on January 14.

There was no comment from the Westland board, which is expected to reconvene today. But the company's advisers, Lazard Brothers, said that if the Sikorsky/Fiat offer failed to muster the necessary 75 per cent majority at the EGM, it would lapse, depriving Westland of the sole legally binding rescue plan.

The new European offer announced yesterday contains no improvement on the guarantee of 1.8m man hours of sub-contracting work over three years which compares with a Sikorsky/Fiat offer of 2m man hours over five years.

However, the consortium is increasing the subscription price for the preferred ordinary shares from 65p per share to 70p per share. Under the new offer, existing shareholders would have to put up £13m of new money compared to £14.2m required by the Sikorsky/Fiat terms which were themselves revised last Sunday.

Sir Raymond said that the new financial terms were superior to the Sikorsky/Fiat plan but he and his European partners stressed that the argument now centred on the commercial merit of the two deals.

He said he doubted whether Westland could preserve an independent design and manufacturing ability if it joined up with Sikorsky and Fiat. The European offer allowed Westland to have a real future rather than an illusory one.

Amplifying his argument for closer European collaboration, Sir Raymond said that the potential European market for helicopters was at least as great as the US market. He also stressed that the aerospace industry retained an indigenous design and manufacturing capability.

The European consortium intends to lobby financial institutions in the City of London as well as small shareholders, who hold some 65 per cent of Westland, to vote down the Sikorsky/Fiat offer.

AT&T plan criticised

Continued from Page 1

Germany "come out of its shell" and make collaboration proposals with France.

Mr Mexandeau also defended his recent initiative to reorganise the French PTT administration by creating a new unit within the PTT to decide on major issues of strategy. He said the reorganisation, which has caused considerable controversy inside and outside the PTT, was designed to modernise the PTT administration to adapt it to the changes caused by deregulation and technological innovation.

But the minister came down strongly against privatisation, arguing that it was in France's interest to preserve a strong public telecommunications service and encourage the development of the domestic telecommunications and electronics industry.

Mr Mexandeau confirmed the administration's commitment to its cable television programme, despite the recent flurry of private, non-cable television initiatives in France. He said 2m homes would be cabled by the end of this year rising to 5m by the end of the decade. The PTT plans to invest FFr 2.8bn ($373m) in cable this year.

Senior telecommunications officials also disclosed that the Direction Générale des Telecommunications (DGT), the French telecom authority, would report a steep rise in profits to FFr 11.5bn for 1985 compared with FFr 6bn the year before.

Eximbank to cut rates

THE US Export-Import Bank (Eximbank) is to reduce the interest rates it charges to assist export sales by 1.05 per cent to the minimum permitted by the agreement between the 22 members of the Organisation for Economic Co-operation and Development, writes Stewart Fleming in Washington.

Mr William Draper, the Eximbank president, said that from January 15 the interest rates on loans supporting exports to relatively poor countries would be cut to 8.8 per cent, while rates on long-term loans to middle-income countries such as Mexico, Brazil and Korea, which account for the bulk of its lending, will be reduced to 10.15 per cent.

Rates on export sales of commercial jet aircraft are not being changed.

The OECD minimum permissible rates are based on the weighted average interest rate on Government bond issues denominated in US dollars, D-Marks, sterling, the French franc and the Japanese yen.

At the same time, Mr Draper also announced three further initiatives designed to boost US exports. The Eximbank said it had developed an improved multi-year insurance policy for exporters and it was expanding its Direct Credit programme to improve the prospects of US companies securing large export orders. It is also proposing to start offering working capital guarantees of up to $300,000 for US exporters to help smaller businesses.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	13	55	Dubrovnik	F	9	48	Malaga	F	13	55	Salzburg	C	0	32
Akrotiri	F	18	64	Faro	R	13	55	Malta	–	–	–	Seoul	C	-2	28
Algiers	S	15	59	Florence	F	9	48	Manila	S	30	86	Singapore	F	28	82
Amsterdam	Sn	-4	25	Frankfurt	C	1	34	Miami	C	21	70	Stockholm	Sn	-8	18
Athens	F	14	57	Funchal	S	18	64	Milan	Fg	0	32	Strasbourg	F	3	37
Bahrain	S	18	64	Geneva	S	-1	30	Moscow	F	-5	23	Sydney	S	25	77
Bangkok	S	27	81	Gibraltar	F	14	57	Munich	C	1	34	Taipei	F	18	64
Barcelona	F	13	55	Guernsey	R	9	48	Nairobi	C	25	77	Tangier	C	13	55
Beirut	–	–	–	Helsinki	S	-16	3	Naples	S	10	50	Tehran	–	–	–
Belgrade	Sn	-1	30	H. Kong	S	18	64	New Delhi	S	17	63	Tel Aviv	S	23	73
Berlin	Sn	0	32	Innsbruck	S	0	32	New York	F	3	37	Tenerife	S	21	70
Biarritz	F	10	50	Inverness	F	-3	27	Nice	S	9	48	Tokyo	S	7	45
Blackpool	F	1	34	Istanbul	C	11	52	Oporto	C	12	54	Toronto	C	-7	19
Bordeaux	S	10	50	Jersey	D	8	46	Oslo	S	-11	12	Tunis	C	12	54
Brussels	F	0	32	Jo'burg	F	27	81	Paris	C	2	36	Valencia	F	11	52
Budapest	S	1	34	Las Palmas	F	20	68	Prague	S	-2	28	Venice	–	–	–
B. Aires	S	31	88	Lima	S	24	75	Reykjavik	F	1	34	Vienna	S	3	37
Cairo	S	22	72	Lisbon	F	14	57	Rio de J'o	C	28	82	Warsaw	C	0	32
Cape Town	S	24	75	Locarno	S	4	39	Rome	R	9	48	Zurich	S	2	36
Caracas	R	26	79	London	F	3	37								
Casablanca	C	13	55	Los Angeles	S	23	73								
Copenhagen	C	-3	27	Luxembourg	Fg	-3	27								
Corfu	F	11	52	Madrid	R	4	39								
Dublin	Sl	3	37	Majorca	S	14	57								

Readings at mid-day yesterday:
C-Cloudy D-Drizzle F-Fair Fg-Fog R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Sterling fall fuels base-rate fears

Continued from Page 1

three months and contributed to growth of between ½ and ¾ per cent in the broad money supply measure, sterling M3.

The Treasury has suspended its 5 to 9 per cent annual target range for sterling M3 because it believes the measure is being distorted by an upward shift in the demand for money. The 15 per cent growth rate in the year to December, and in particular the acceleration of bank lending, none the less caused some unease in financial markets.

Yesterday's figures show that the narrow money supply measure, Mo, grew by only 2¼ per cent in the year to December to leave it below its official 3 to 7 per cent target range. The Bank, however, indicated that the British Telecom share issue in the autumn of 1984 had resulted in the measure being distorted downwards.

The view among City economists last night was that the authorities might still avoid a rise in base rates, but further significant pressure on the pound – perhaps triggered by a weakening oil price – would make such an increase inevitable.

Mr Ian Harwood, economist at broker Rowe and Pitman said: "I think the Government could hold it, but not if the oil price cracks."

Mr Stephen Lewis, at broker Phillips & Drew, said that the authorities might need to raise interest rates in order to reassure financial markets of its resolve to bring down inflation.

The timing of sterling's fall has none the less surprised many analysts as oil prices have been relatively firm over the past few days. Some foreign exchange dealers believe that waning expectations of a cut in the US interest rates may have added pressure on the pound.

Yesterday, the sterling index, which measures its value against a basket of currencies, fell by 0.4 points to 77.5.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Wednesday January 8 1986

Credit rating cut for Texas bank

By William Hall in New York

TEXAS COMMERCE Bancshares (TCB), one of the biggest and most successful banks in Texas, has had its credit rating lowered for the second time in less than a year.

The move is yet another indication of the mounting problems facing Texas banks which have been hit by heavy losses on energy and real estate lending.

Falling oil prices are having an increasingly serious impact on many customers of Texas banks and have undermined the local real estate market. As a result Wall Street is preparing for a further set of poor figures from the state's local banks when they begin reporting their 1985 results in the next couple of weeks.

Standard & Poor's, the US credit rating agency, yesterday lowered the rating on the bank's senior debt from AA to AA minus.

It noted that TCB's non-performing loans had climbed to a high of \$627m, or 4.6 per cent of loans, from \$367m, or 2.7 per cent of loans, at the end of 1984.

The increase in non-performing loans took place despite \$114.5m of net loan charge-offs over the same period. As a result earnings in the first nine months of \$81.7m were substantially down on last year's \$138.6m despite taking \$31m of securities gains.

S&P said that TCB's asset quality problems were partially mitigated by a "strong, high-quality capital base."

Sacilor buys minority interests

By David Housego in Paris

SACILOR, the French state-owned steel group, has taken full control of its lossmaking long products and engineering steels subsidiaries previously jointly held with Usinor, the country's other nationalised steel company.

Under an agreement announced yesterday, Sacilor is to take over Usinor's 49 per cent stake in both Unimetal, the long products company, and Ascometal, the engineering steels subsidiary. The two subsidiaries made combined losses in 1985 of about FFr 4.5bn (\$602.8m).

Under the arrangements in force last year, Usinor had to absorb 49 per cent of these losses

● The FFr 4bn bond being issued by Cie Française de Développement Industriel will comprise two equal tranches, one at a fixed interest rate and one at a variable rate.

The 12-year fixed-interest rate tranche will carry a 10.30 per cent coupon and have an issue price of 95.58 per cent. The second tranche will be issued at 95 per cent with a 12-year life, carrying an initial fixed-interest rate of 10 per cent.

COURT DECISION LIKELY TO AFFECT US TAKEOVER STRATEGY

Hanson tightens grip on SCM with further share purchase

BY TERRY DODSWORTH IN NEW YORK

HANSON TRUST, the UK industrial holding company, moved into a virtually impregnable position yesterday in its pursuit of SCM, the New York conglomerate, when it bought a large block of shares in the US group to take its stake up to about 64 per cent.

Wall Street analysts said Hanson picked up at least 30 per cent of SCM's stock in an early morning flurry of trading. The share purchases followed a late-night court decision on Monday clearing the way for the UK company to proceed with its \$928m bid for SCM, in which it already holds a stake of about 30 per cent.

Hanson's move came while SCM itself launched a last-ditch attempt to block the Hanson offer by announcing that it would seek a rehearing of the Appeals Court ruling by the full panel of 12 judges for the New York Second Circuit.

Wall Street arbitrageurs, however, indicated that this manoeuvre had little chance of succeeding. Within minutes of the opening of the New York Stock Exchange, the SCM share price jumped by \$2¼ to \$74¾, only 25 cents below Hanson's all-cash offer for the company and well over the \$74 a share cash and paper being offered by Merrill Lynch, the Wall Street securities company, in a bid which included some of SCM's management.

Sir Gordon White, chairman of Hanson's US activities, said yesterday he was "delighted" by the Appeal Court decision, which overturned a lower court ruling against Hanson by a two-to-one majority.

The crucial aspect of the judgment was its rejection of the use of a so-called "crown jewel lock-up option" which had been granted by SCM to Merrill to induce the securities group to go ahead with its \$74 a share offer for the company.

Under the lock-up, Merrill had the right to buy two of SCM's premier businesses at a pre-ordained price if anyone else acquired more than a third of the company – a device meant to act as a deterrent to Hanson's rival bid because the exercise of the option would take away two of the businesses in which Hanson might be interested.

In the Appeal Court, two of the judges found there was "an abundance of evidence strongly suggesting a breach of fiduciary duty" by the SCM directors in granting the lock-up.

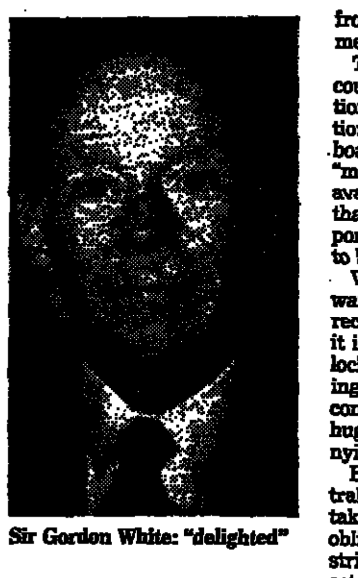
The judges said the directors had given only cursory consideration to the proposed lock-up, had not investigated the price of the deal sufficiently and had acted in a way which did not help the bidding process for the company.

Their overriding concern, they said, was "to allow the forces of the free market to determine the outcome" of the battle.

Despite the very strong dissenting opinion of one of the judges, the federal court decision is likely to have a considerable impact on takeover strategy throughout the US. Lock-up options have frequently been used successfully in the past as devices to encourage a bid which might otherwise not be forthcoming, since they give the bidder the guarantee of acquiring some assets even it its overall offer fails.

More recently, in the frenetic takeover activity of the last two years, lock-ups have been used increasingly as a defensive device to stimulate a rival bid to unwanted offers. In the SCM case, and in a previous takeover battle at Revlon, the lock-ups were used even more controversially to protect defensive bids in which the management of the companies had some interest, because they would have formed part of the team taking over the business in leveraged buyout agreements.

In the past, the courts have usually accepted lock-ups under the "business judgment" rule, which broadly holds that judges should not second-guess boards of directors. This informal rule, established through case law, presumes that boards know what is best for a company since they represent shareholders, and that the law should only intervene where there are clear cases of breaches.



Sir Gordon White: "delighted"

In the Revlon case and now SCM, the courts have indicated that they will scrutinise boardroom responses during a takeover battle with particular care when a lock-up option is at stake – particularly in a conflict which involves a bid from an organisation in which the management of the target company has an equity interest.

These principles were made particularly clear in the Revlon litigation, where a lock-up option was denied because the court held that it was a give-away price which had not been validated by any independent adviser.

Initially it looked as though SCM would win its battle against Hanson partly because, in a crucial difference to the Revlon ruling, it had secured an independent valuation from Goldman Sachs, its investment banker.

Two of the judges in the appeals court, however, seriously questioned the way in which this evaluation had been accepted by the SCM board and added that the directors "manifestly declined to use time available for obtaining information that might be critical, given the importance of the business judgment to be made."

While this ruling will send a warning shot across the bows of directors considering similar moves, it is unlikely to close up the use of lock-ups entirely. The law governing takeovers in the US is changing constantly, a result partly of the huge amount of litigation accompanying merger activity.

Because of the absence of a central adjudicating body governing takeover activity, the courts are obliged to act as referees trying to strike a balance between the interests of the offensive and defensive parties.

The balancing act was amply demonstrated yesterday by the minority opinion of Judge Amalya Kearse in the SCM case, who said the directors of the company acted at "all times from a desire to secure offers for SCM and its shareholders that would be superior to the offers from Hanson."

Without the \$74 a share offer from Merrill Lynch, she added, "the bidding would have died at \$72, Hanson's then-current offer."

The rights of the defensive side in takeovers has also recently been reinforced in at least one aspect by the judgment of a Delaware court in upholding a controversial type of "poison-pill" mechanism which makes it prohibitively expensive to try to launch a hostile bid for a company.

In that case the court argued that the directors were not trying to entrench management but were giving themselves the flexibility to bargain with rival bidders in the event of a takeover attack.

INTERNATIONAL BONDS

UBS launches \$300m issue

UNION Bank of Switzerland set the Eurobond market alight last night with a \$300m, seven-year issue carrying warrants to buy participation certificates, writes Peter Montagnon, Euromarkets Correspondent, in London.

EHF Bank bond average		
Jan 7		Previous
105.125		105.039
High	1986	Low
105.169		105.039

The deal caught the mood of a bond market that has been avidly eyeing equity-related deals and was doubly attracted by this one from a Swiss bank with its proven in-house placing muscle.

The 5½ per cent paper which is priced at par soared immediately to 107 though it still has some way to go on the bank's previous issue of 6¼ per cent bonds which was trading at 125.

UBS (Securities) is sole lead manager of the deal, and there will be no co-managers. But in an effort to assure an international distribution of the paper and reduce the flowback to Switzerland, a group of underwriters is being formed.

Each bond will carry four "A" warrants exercisable between March 1 1986 and November 30 1989 and four "B" warrants exercisable up to the end of January 1992. The exercise premium is indicated at 2 to 5 per cent on the "A" paper and at 10 to 14 per cent on the "B" paper.

The deal livened up a day that was otherwise beginning to look rather lacklustre in the dollar primary market with only two other fixed-rate bonds launched, neither of them exactly a runaway success.

Norsk Hydro is raising \$100m over five years with a coupon of 8½ per cent and issue price 99¾ through Swiss Bank Corporation International while Paccar Financial, an arm of the US truckmaker launched a \$100m, five-year, 9⅛ per cent bond at 100¼ through Morgan Stanley and Merrill Lynch.

Bankers said that the sluggish response to both issues underlines the dilemma facing a market that is now thoroughly used to pricing issues off the US Treasury yield curve.

On this basis both bonds looked very reasonably priced with Norsk Hydro offering a premium of 30 basis points over equivalent US government issues on launch and Paccar 80 points. Yet in absolute terms the coupons have become very low, and investors have some difficulty swallowing them.

As a result both bonds traded only narrowly inside their fees though the Norsk Hydro deal from a well-known name which is popular with European investors improved in line with the market during the afternoon.

The floating-rate note market which has been in the doldrums recently was featured by a \$200m, eight-year issue for Ferrovie dello Stato, Italian state railways, which is led by IBJ International and carries interest at the six-month London Interbank Offered Rate for Eurodollar deposits (Libor).

Expected soon is a \$300m issue for Indonesia which will be that country's first borrowing in the international capital markets since April last year and a test of its market standing in the light of falling oil prices.

Indonesia does not urgently need to borrow abroad but has chosen to raise fresh funds rather than wind down its unused credit lines of about \$2.3bn. The deal is expected to carry a 15-year life and bear interest at ⅜ per cent over six-month Libor.

Elsewhere the French franc sector saw its first deal of the year in the form of a FFr 450m, eight-year, 10½ per cent issue for the Council of Europe which was priced at 100½ per cent by lead manager Société Générale. The deal was well received in this tightly regulated market with its strict queuing system which will see only one other bond in January, a FFr 350m issue for Aéroports de Paris.

Deutsche Bank Capital Markets launched an A\$30m, five-year, 14½ per cent deal for Badische Kommunale Landesbank which, like other recent issues in this sector, will be the subject of a swap. The German name helps as most buyers of Australian dollar issues are European retail investors.

Deutsche Bank had also placed half the issue, though some bankers still argue that what this market would really prefer is a top corporate name.

There were still no new public issues in Germany yesterday although secondary market prices were fairly buoyant. New issue business is also at a low ebb in Switzerland though Japan Electronic Computer launched a SFr 50m, five-year private placement at 5⅝ per cent through Banque Paribas (Suisse).

Expected later this month is the first Euroyen issue with warrants, which have been permitted only since the start of the year. The borrower will be Kubota, the agricultural machinery manufacturer, which will raise Y20bn through an issue led by Yamaichi Securities.

Expected terms include a coupon of 3 per cent or slightly higher and an exercise premium of around 2½ per cent.

● Mr Timothy Lyons, bond syndicate manager at Samuel Montagu, has left the bank to join Salomon Brothers International only a few months after being recruited from Credit Suisse First Boston, writes Alexander Nicoll in London.

Mr Lyons, 32, has been appointed a vice president to specialise in currency swaps, in which he had previous experience at CSFB.

His departure is the latest of several from Montagu's Euromarkets team over the past year. But Mr Richard Tickner, director in charge of syndicate, research and arbitrage, said it should not give rise to unease about the bank.

Following Midland Bank's assumption of full ownership of Montagu last year, the merchant bank had been clearly designated as the worldwide capital markets arm of the Midland group, Mr Tickner said.

As a result of a subsequent reorganisation of the two banks' syndicate groups into one, Montagu's team has been strengthened with the addition of executives from Midland and from outside.

Mr Richard Gillingham, head of swaps and arbitrage, is additionally taking on Mr Lyons' former role as syndicate manager.

International bond service, Page 16

Alsthom plans to boost exports

BY PAUL BETTS IN PARIS

ALSTHOM, the diversified French heavy engineering group controlled by the nationalised Compagnie Générale d'Electricité, is looking for new foreign acquisitions and alliances to boost its export business, Mr Jean-Pierre Desgeorges, the company's chairman, said yesterday.

Mr Desgeorges said Alsthom had recently decided to raise FFr 972.5m (\$128.6m) through a one-for-four rights issue, in part to help position the company for possible acquisitions.

He was particularly satisfied with Alsthom's recent acquisition of the high and medium-voltage electrical businesses of Sprecher and Schuh, the Swiss electrical engineering group.

Mr Desgeorges suggested that this was "a model" of the sort of transactions he hoped to make to reinforce Alsthom's international activities.

Alsthom saw its export performance rise strongly last year with new orders totalling FFr 14bn – about double that of the previous two years.

Exports accounted for about 50 per cent of Alsthom's new orders last year. Even this was distorted because in 1985 the company received a large French order to construct the new high-speed train link in western France.

Excluding this order which was accounted for in the 1985 figures but which would run over a period of years, exports accounted for more than half the new business in 1985, Mr Desgeorges said.

Orders from French state institutions such as the railways, the coal board and the electricity utility now represented only about 20 per cent of total orders compared with between 33 and 40 per cent five years ago, he said.

The formal announcement this week by the French authorities that France would in future order only one new nuclear power plant a year for its electricity system further confirmed Alsthom's need to rely increasingly on export markets, Mr Desgeorges said.

Mr Desgeorges indicated that the company was expected to report a fall in earnings in real terms for 1985.

David Marsh in Paris examines changes at one of France's largest financial institutions

New era dawns for a sprawling giant

FRANCE'S sprawling Caisse des Dépôts et Consignations (CDC) is a giant cash-moving machine which scoops up savings in one part of the French financial landscape and invests or lends them in another.

A shake-up on French financial markets and shifting government economic priorities are changing the way the machine works – and forcing those running it to adjust – long-established operating techniques.

Mr Robert Lion, chief executive of the CDC since 1982 and former senior adviser to Mr Pierre Mauroy, the Socialist Government's first Prime Minister, is piloting the CDC into a new era of competition, reflecting the growing rivalry between the CDC and commercial banks to capture savings.

Caught between a falling French savings ratio and more sophisticated French investors, which are becoming less ready to keep funds in traditional low-yielding tax-exempt savings deposits, the CDC – now 170 years old – can no longer rest on its laurels.

In future, says Mr Lion, the CDC – an important indirect borrower on foreign capital markets and an active manager of international bond issues – will be paying growing attention to marketing its expertise in financial services.

The CDC's main role is to act as the "central bank" for the nation's local savings banks (the Caisse d'Epargne system) as well as the Post Office savings bank.

A large proportion of the funds are then lent at preferential rates to finance local authorities and public housing projects. Last year the CDC lent a total of nearly FFr 100bn (\$13.3bn) to these two sectors.

With the move in France towards cutting subsidies in lending throughout the financial system, the CDC is progressively shifting its activities, especially with local authorities, towards making loans at market interest rates.

"Even if there are no more loans at privileged interest rates, we will remain the local authorities' financial adviser – organising credits at market rates," says Mr Lion.

Reflecting Mr Lion's drive to bring the institution into line with changing economic demands, the CDC is also paying an important role in financing the wiring up of French regions for cable television.

It is participating in the general move towards decentralisation in France. The CDC has stakes in about 300 local semi-public companies controlled by local authorities, set up to carry out local development, housing schemes and transport projects.

In the venture capital sector it has made investments in about 12 communications companies and is becoming interested in aiding business start-ups.

This is in addition to a range of more classical equity stakes in other companies. These range from a 28 per cent share in the Belgian hotel and transport group Wagons-Lits to small stakes in holiday operator Club Méditerranée, excavator group Poclain, and France's two state airlines, Air France and Air Inter.

The CDC will take a stake in whichever project is chosen to build a fixed transport link across the English Channel. Mr Lion says the CDC will take the stake purely as an investor interested in financial return – a logical extension, he says, of the group's role in helping to finance France's motorways.

With a balance sheet of FFr 1,154bn last year CDC is France's largest financial institution.

Off-balance sheet funds entrusted to it for management by public authorities, as well as the amounts it invests as mutual funds totalling FFr 42bn, and making it France's leader in longer-term funds, inflate the total volume of assets it controls by a further 15 per cent.

Still governed by its founding statutes of 1816 designed to give it independence from the Treasury following the Napoleonic wars, the CDC is not subject to formal control by the executive branch of Government. It is not nationalised because it has no capital – although with reserves of FFr 115bn at the end of 1985, the CDC has an unparalleled reputation for financial solidity.

Its affiliate, Caisse d'Equipement des Collectivités Locales (CAECL), which finances local authority investment, has a triple-A rating on the New York markets.

The CDC is, however, supervised by the National Assembly, and its chief executive is appointed by the head of state. Mr Lion has an unlimited mandate. This gives him an exceptional degree of protection from any change in the political climate after next March's general elections.

One area of the CDC's activities which is usually little publicised concerns its role as an informal regulator on the French capital markets, especially the bond market.

The CDC's stock of French marketable securities – FFr 165bn at book value at the end of 1984 – is the largest in France.

At market value, its stock of bonds totalled FFr 174bn, accounting for more than 14 per cent of the total capitalisation of the French bond market.

The CDC's role in smoothing out fluctuations on the capital markets – its celebrated function as the "gendarme" of the markets – is not inscribed in its statutes but has grown up *de facto* as a result of its size, says Mr Lion.

"We are responsible for a lot of savings. France is not a country where people are used to large fluctuations in market values," he says. "We are counted on sometimes to prevent panic."

On two notable occasions in November and December last year the CDC and French nationalised banks organised big bond purchases to help stem a monetary slump in prices on the French capital market. The intervention proved effective and profitable.

Mr Lion says the CDC intervenes on the markets only with its own money (including a small bond market intervention fund especially assigned to it by the Government) rather than with savings entrusted to it through mutual funds.

He adds, however, that the task of steadying the bond market and maximising return on its own investments might in the future confront the CDC with "a contradiction of objectives."

Mr Jacques Delmas-Marsalet, CDC deputy managing director in charge of financial activities, stresses that the group plays a role of "automatic stabiliser" on the French financial markets.

INTERNATIONAL COMPANIES and FINANCE

Wessanen expects strong results

By Our Financial Staff

WESSANEN, the Dutch foods group which a year ago raised funds through the London share market, expects profits for 1985 to show a further strong increase.

The company said yesterday that sales had improved and that net profits would grow by about 25 per cent. For 1984 net earnings rose by 30 per cent to Fl 48.1m ($17.8m).

Wessanen, which is listed on the Amsterdam bourse but which raised £9.5m ($13.5m) in London at the end of 1984, also plans a share split. It proposes a four-for-one offering.

Profits had improved last year after benefits from the programme to diversify into more value-added specialised food products, the company said.

Officials cited the European flour division's expansion into the profitable grain feedstocks for the brewing industry as an example of this strategy.

The company also disclosed that it planned around Fl 100m annually in capital investments for existing businesses in Europe and the US over the next three years.

European Options Exchange studies oil products move

BY LAURA RAUN IN AMSTERDAM

THE European Options Exchange (EOE) and Rotterdam businessmen are considering launching the world's first options on crude oil and refined products this year.

The initiative marks another foray by the EOE in the increasingly competitive battle among the world's securities exchanges to gain investors' business. The Amsterdam-based EOE, the sixth largest options exchange in the world, has already pioneered internationally linked trading in currencies and precious metals.

Mr Tjerk Westerterp, EOE general director, said yesterday that a feasibility study on a proposed oil options exchange located in Rotterdam should be finished by June at the latest.

The study group comprises Mr L. W. Scholten, an EOE director; Mr G. Vaandrager, a representative of the Rotterdam Chamber of Commerce; and Mr Roosegaarde Bisschop, a former vice president of Bache Securities.

Under consideration are options on futures on crude oil and refined products, such as petrol and heating oil, as well as options on physical oil and products. Futures on crude oil and petroleum products are traded in London and New York, with the New York Mercantile Exchange apparently considering options of its own.

Mr Westerterp said petroleum options could have wider use now that oil prices were no longer controlled by the Organisation of Petroleum Exporting Countries (Opec).

Options, which provide the right to purchase a certain underlying value during a specified period of time, could offer hedging as well as speculative opportunities.

New Swedish insurer

BY DAVID BROWN IN STOCKHOLM

SWEDEN'S troubled insurance sector has seen the entry of a new company, Försäkrings AB Njord, which is to concentrate on the property, corporate and transport sectors.

Njord, the first such company to be established in Sweden for over 40 years, hopes to compete by offering cheap insurance when most big groups, among them Skandia, Folksam and Trygg-Hansa, have had to raise premiums in the face of sharply deteriorating earnings.

Njord will market policies aimed primarily at small and medium-sized business customers through established insurance brokers and so aims to hold down overheads. It will also enter the credit guarantee market.

Njord has a share capital of SKr 50m ($6.5m) – the Arab insurance group of Bahrain owns a 15 per cent stake – and hopes to capture less than 1 per cent of the SKr 6bn Swedish corporate insurance market this year.

Yamanouchi to list in Paris

TOKYO: Yamanouchi Pharmaceutical, a leading Japanese pharmaceutical concern, is to be listed on the Paris Stock Exchange in April.

The move will make it the first Japanese pharmaceutical company to be listed on the exchange. Yamanouchi is seeking to internationalise its operations and is considering building a production facility in France to produce anti-ulcer agents.

The group's main exports markets are Europe and south-east Asia.

AP-DJ

Hoogovens boosts profit to Fl 206.5m

By Our Financial Staff

HOOGOVENS, the Dutch state-owned steel group earmarked for privatisation, has achieved increased profits for 1985 despite reduced steel output.

Crude output at the main Ijmuiden plant dipped to 5.3m tonnes last year from the 5.5m tonnes of 1984. But overall group profits improved against the 1984 result of Fl 206.5m ($76.5m) after tax.

The 1984 result allowed Hoogovens to pay its first dividend for eight years. The company ran up losses amounting to Fl 1.3bn between 1973 and 1982 and turned in a further deficit of Fl 384m for 1983.

Hoogovens gave no forecast for current-year profits but is confident about the future following the success of the restructuring plan of the past two years.

● Stahlwerke Peine-Salzgitter, the steel arm of the state-owned Salzgitter group, made a net profit in the year ended September 1985 after posting a net loss of DM 144m ($60m) a year earlier. However, the profit was not big enough to wipe out the previous year's loss.

Alcan in $350m writedown

By Robert Gibbens in Montreal

ALCAN ALUMINIUM is making a large writedown in the value of its bauxite and alumina operations because of continuing heavy world over capacity and low prices.

Alcan said fourth-quarter earnings would include special charges totalling US$350m before tax and US$215m or $2.15 a share after tax.

About two thirds of those charges represent a special provision against investments by Alcan's main operating subsidiary, Aluminium Company of Canada, in bauxite and alumina. The company said world oversupply of those materials for making primary ingot has brought impaired earning power and lower economic value.

The other third recognises lower value for certain overseas investments, costs of the sale and restructuring of several small businesses and lower values for raw material inventories acquired through joint ventures.

Aluminium Company of Canada comprises Alcan's operations in North America, the Caribbean and Ireland.

Last month Mr David Culver, Alcan Aluminium president, referred to serious problems in the company's bauxite and aluminium operations, including heavy losses at the new alumina refinery in Ireland, in which Alcan holds a majority interest.

FT INTERNATIONAL BOND SERVICE

The list shows the 200 latest international bond issues for which an adequate secondary market exists. The following are closing prices for January 7.

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Amev 10¾ 92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.86
Amex Credit 10⅛ 90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.32
Atlant Richfld 10⅛ 00	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	10.13
Australia Com 11 95	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.39
Australia Com 11⅛ 00	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.32
BP Capital 11⅛ 92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.40
Campbell Soup 10⅞ 95	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.53
Canada 11⅞ 90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.75
Canadian Pac 10⅜ 93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.59
Canadian Pac 12⅛ 90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	10.90
CEPME 10⅞ 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.19
Chevron U.S.A. 12¼ 89	600	105½	106	+0¼	0	10.28
Citicorp 10 88	200	102¼	102¾	0	+0⅛	8.85
Citicorp 10⅜ 95	200	100¾	101¼	−0⅞	0	10.43
Coca Cola 11¾ 91	100	108⅛	108⅝	+0⅛	−0⅜	9.76
Denmark Kingdom 11¼ 89	100	105⅞	106⅜	0	−0½	9.92
Denmark Kingdom 11½ 90	100	107⅝	108⅛	0	−0¼	9.18
Denmark Kingdom 11½ 92	100	108¾	109¼	+0⅛	−0¼	9.59
E.D.F. 10 95	225	102¼	102¾	−0⅛	−0⅜	9.57
E.E.C. 9⅝ 90	350	101⅝	102⅛	0	−0⅛	9.08
E.E.C. 11⅛ 90	100	107	107½	−0⅜	−0⅛	8.91
E.I.B. 12 95	200	113⅞	114⅜	0	−0¼	9.61
Eli Lilly 10¼ 92	150	105¾	106¼	0	+0⅛	9.01
Export Dev Corp 10 90	100	104¼	104¾	0	0	8.70
Export Dev Corp 12 88	100	108¼	108¾	0	0	8.85
Fed Dep Stores 10⅛ 95	100	103⅛	103⅝	0	+1⅜	9.55
Ford Motor Cred 10½ 91	150	102⅜	102⅞	−0⅛	−0⅛	9.64
Ford Motor Cred 11⅜ 90	100	105¾	106¼	+0⅛	0	9.53
Ford Motor Cred 12 95	100	108½	109	0	−0⅝	10.45
Gen Elec Credit 10¼ 00	200	103¾	104¼	0	+0¼	9.71
GMAC 10¼ 89	200	104	104½	0	+0⅜	8.72
GMAC 10¼ 92	250	103	103½	+0⅛	+0⅛	9.57
IADB 10½ 95	150	105½	106	+0⅜	0	9.55
IBM Credit 10⅜ 2000	300	† 103⅞	104⅜	+0⅛	+0⅛	9.82
Kellogg Company 10⅝ 90	100	104⅝	105⅛	+0⅛	+0⅛	9.36
Kellogg Company 11¼ 92	100	106⅜	106⅞	+0¼	+0⅛	9.74
L.T.C.B. 12⅞ 91	100	114⅛	114⅝	+0¼	+0⅜	9.52
Mitsui Trust 11⅝ 90	100	† 106½	107	0	−0⅝	9.65
Nippon Cred Bk 10⅜ 95	150	104⅞	105⅜	+0⅛	−0¾	9.79
Pillsbury Co. 10¼ 93	100	101½	102	0	−0½	9.90
Pru Realty secs 12⅜ 95	546	111	111½	+0⅛	0	10.16
Qantas Airways 10⅝ 95	140	105⅜	105⅞	0	+0⅛	9.43
Quebec Hydro 11½ 92	100	109	109½	0	+0⅛	[illegible]
Queensland Govt 10¼ 95	100	103¾	104¼	0	+0¼	9.38
Ralston Purina 11¾ 95	150	110	110½	0	+0¾	9.90
Ralston Purina 12¾ 89	100	109⅞	110⅜	+0¼	+0⅛	9.41
Saskatchewan 10¾ 92	100	106¾	107¼	+0¼	+0½	9.28
Saskatchewan 11⅞ 89	100	108¾	109¼	+0¼	0	8.90
Statoil 10 90	170	103⅝	104⅛	+0⅛	−0⅛	8.91
S Wales Trav 11¾ 90	150	108⅝	109⅛	−0⅛	−0¼	9.14
Swed Exp Cred 10 92	100	102⅞	103⅜	0	−0¼	9.31
Swed Exp Cred 12¾ 88XW	100	109	109½	+0⅛	−0¼	8.59
Sweden Kingdom 10⅞ 90	200	106⅝	107⅛	+0⅛	+0⅛	8.97
Sweden Kingdom 11½ 89	200	107⅞	108⅜	0	−0¼	8.95
Sweden Kingdom 11¾ 94	100	110¾	111¼	+0¼	−0½	9.94
Tenneco Corp 10¾ 95	150	102½	103	+0⅛	−0½	10.26
Texaco Capital 10 95	300	† 85	87	+2	+1¾	12.58
United Tech Fin 10⅝ 95	100	104¼	104¾	+0¼	+0⅞	9.86
Victorian Rep 11⅜ 92	150	108⅛	108⅝	+0⅛	+0¼	9.55
World Bank 10⅜ 95	300	104⅝	105⅛	−0⅛	−0⅝	9.31
World Bank 12⅞ 94	200	118¼	118¾	+0⅛	+0½	9.61

Average price change On day +0⅛ on week 0

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev Bank 8 94	200	† 106½	107½	0	−0¼	6.89
Austria Republic 7⅜ 94	200	† 104½	105½	0	0	6.80
Baxter Travenol 7¼ 94	200	† 101½	102½	−0⅛	0	6.92
Copenhagen 7⅜ 95	150	† 101¼	102¼	+0⅛	0	7.10
Credit National 8⅛ 94	200	† 106½	107½	−0⅛	0	6.96
Dow Chemical 6¾ 95	300	† 101	102	+0⅛	+0½	6.53
E.I.B. 7¼ 94	300	† 103¼	104¼	0	+0½	6.66
Escom 8 92	150	† 93¼	94¼	−0⅛	+0¼	9.35
Ex-Im Bk Korea 7⅜ 90	100	† 100¼	101¼	+0¼	+0½	7.40
Ferrovie Dello Stato 8 91	100	† 104¾	105¾	−0⅛	+1⅛	6.76
Finland Republic 7 92	200	† 101½	102½	−0⅛	−0¼	6.59
Gould Int Fin 7⅝ 91	100	† 105	106	0	+0½	6.37
Ireland 8⅛ 92	150	† 104¼	105¼	−0⅛	+0¼	7.16
Japan Fin Corp 7⅜ 91	100	† 104	105	0	0	6.61
Mitsubishi Hvy 3½ 89WW	300	† 165½	166½	−0½	−3	−11.97
Mitsubishi Hvy 3½ 89XW	300	† 93	94	0	−0½	5.75
Mitsubishi Met 3⅛ 89WW	100	† 104¼	105¼	+0⅛	−0¼	1.87
Mitsubishi Met 3⅛ 89XW	100	† 89	90	+0⅛	+0¼	6.20
Quebec Hydro 7¾ 95	200	† 102⅜	103⅜	−0¼	−0⅛	6.75
Renfe 7¾ 95	100	† 103⅜	103⅞	0	+0½	7.18
Soc Cent Nuclear 7¼ 95	150	† 100½	101½	−0⅛	0	7.08
Societe Cent Nuclear 8 91	100	† 105	106	+0⅛	+0¼	6.75
Sth African Tran 7⅜ 92	100	† 92	93	0	0	9.14
World Bank 7 95	600	† 102½	103½	−0⅛	+0¼	6.56

Average price change On day −0⅛ on week −0⅛

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Avon Cap Corp 5⅜ 94	130	† 101¼	101½	0	0	5.18
Brit Land Corp 6½ 99	75	† 105	105¼	+1	0	5.94
Council of Europe 6 92	120	† 103¼	103½	+0¼	+0¾	5.40
Creditanstalt 5½ 94	100	† 100¾	101	0	+0½	5.37
Deutsche Bk Fin 5⅜ 95	100	† 105½	105¾	+0½	+0¼	4.60
E.I.B. 5⅞ 94	120	† 102½	102¾	+0½	+0¾	5.40
Gen Occidentale 4½ 94	80	† 100	100¼	−0½	+0¼	[illegible]
Glendale Fed.S&L 5½ 95	100	† 99	99¼	0	+0¼	5.62
Ind Fund Fin 5¾ 94	40	† 101½	102	+0⅛	+1⅛	5.50
Int-Am Dev Bk 6⅛ 94	120	† 103½	104½	−0⅝	+0⅜	5.54
N.Zealand steel 5¾ 96	70	†* 102	102¼	+0¼	+0¼	5.49
Oberoi Kthwk 5⅜ 95	100	†* 102	103	−0⅝	+1⅜	5.02
Olivetti Intl 5½ 95	100	† 101¾	102	+0¾	−0⅞	5.24
Pepsico 5¼ 95	130	† 104	104¼	−1	−1⅛	4.66
Ralston Purina 5⅜ 94	125	† 102¾	103	+0¾	+0¾	4.96
Santos Finance Ltd 6 94	130	† 100¾	101	0	+0⅜	5.87
Tokyo Elec Pwr 5½ 93	120	† 102½	102¾	0	+1⅜	5.05
Tokyo Metropolis 5¼ 94	80	† 103¼	103½	+0¼	−0¼	4.78
World Bk 5⅜ 94	150	† 104½	104¾	+0½	−1	5.00

Average price change On day +0⅛ on week +0¼

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Caisse Nat Tele. 6¼ 92	25	98⅛	98⅝	−0⅛	0	6.55
Gdyr Tr & Rubber 7⅛ 95	25	102⅛	102⅝	0	+0⅛	6.77
Mort Bk Denmark 7 92	10	101	101½	0	+0¼	6.74
New Brunswick 7⅛ 95	10	103½	104	0	+0⅜	6.57
Swed Exp Cred Zero 90	14	73½	74	+0¼	+0⅜	6.65

Average price change On day 0 on week +0⅛

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Barclays Aust 12⅜ 90A$	50	90⅞	91⅞	0	+0⅜	15.38
Creditanstalt 12⅞ 90A$	50	95¼	96¼	0	−1⅛	14.12
Pepsico Cap. Res. 13 90A$	50	104¼	105¼	0	+0⅜	11.60
Swed. Export Cred 13 88A$	40	97⅜	98⅜	0	+0⅜	13.70
Amex 10¾ 90 C$	50	102¾	103¼	−0⅛	−0¼	9.95
Canadian Pac 10⅜ 90 C$	75	100⅝	101⅛	0	−0⅛	10.11
CIBC 10¾ 90 C$	75	† 99¾	100¼	−0⅜	−0⅞	10.72
Genstar Fin 11¾ 95 C$	75	104¾	105¼	−0⅜	−1	10.85
Montreal 11½ 95 C$	75	105½	106	−0⅛	−0⅜	10.49
Sears Acc. Co 10⅜ 92C$	75	† 100¼	100¾	−0⅜	−0⅛	10.50
Winnipeg City 10⅜ 90C$	50	103⅝	104⅛	+0⅛	0	9.30
Chrysler Fin Corp 17 90N$	65	98½	99	0	+2	17.81
K.O.P. 18¾ 91 N$	50	96⅛	97⅝	+0⅛	+2¼	17.75
Kredietbank Lux. 17 88 N$	70	99¾	100¾	0	+0⅛	16.76
Bayer Vereins 8⅜ 88ECU	60	101⅛	101⅞	+0⅛	−0⅛	7.76
Chrysler Fin Corp 9 92ECU	75	98⅛	98⅞	0	+0¼	9.30
Xerox Canada 8½ 90 ECU	40	98⅝	99⅜	+0⅛	+0⅜	8.75
Honda Motor WW 3⅞ 90FL	100	106¾	108¼	0	0	2.36
Honda Motor XW 3⅞ 90FL	100	89⅜	89⅞	0	0	6.40
Thyssen 7¼ 90 FL	50	103⅝	104⅛	−0⅛	−0⅛	6.25
Wereldhave 7½ 90 FL	75	102⅝	103⅛	+0⅛	+0¼	6.73
Wessanen 6¾ 90 FL	50	101	101½	−0⅜	+0¼	6.43
Mobil Corp. 11⅛ 90 FF	500	102¾	103¼	+0¼	+0½	10.26
Amev 11 93 £	50	95	95½	−1⅛	−2½	12.04
Australia Comm 11 92 £	40	96⅜	96⅞	−1⅜	−1⅜	11.77
E.I.B. 11⅛ 93 £	50	96⅞	97⅜	−1⅜	−1½	11.71
GMAC UK Fin 10½ 90 £	30	96	96½	−0⅝	−0⅝	11.58
Imp Chem Inds 11¼ 95 £	75	97⅝	98⅛	−0½	−0⅞	11.66
Imp Chem Inds 10¾ 92 £	75	95⅛	95⅝	−0¾	−1⅛	11.78
Mcdonalds 10⅞ 90 £	40	97⅝	98⅛	−0½	−0⅞	11.49
Mitsubishi Fin HK 11 90 £	50	96½	97	−0⅝	−1¾	11.95
NSW. Treasury 10⅝ 92 £	50	94⅛	94⅝	−0⅝	−1⅜	11.85
Privatbanken 11⅞ 92 £	20	98¼	98¾	−0¾	−0½	11.96
Rank Xerox 11 92 £	40	95⅜	95⅞	−1⅜	−1⅜	12.00
Royal Ind 10¾ 92 £	60	94¼	94¾	−1¼	−1½	11.97
Tricentrol XW 11 92 £	35	91⅝	92⅝	−0½	−1⅜	12.86
Trusthouse Forte 11⅛ 90£	50	97⅜	97⅞	−0¼	−0¾	11.83
World Bank 11¼ 95 £	100	97⅞	98⅜	−0½	−1½	11.56
C.O.E. 8⅞ 95 LF	600	98¾	99¼	0	−0¼	9.02
Nat Lux Alum 10½ 92 LF	800	102⅞	103⅞	0	−0⅜	9.77

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
Abbey National 5 2000 £	0	99⅜	99⅝	15/1	11⅜	11.43
BankAmerica O/S 5¼ 96	0⅛	99⅝	99⅞	30/3	8¼	8.27
Bankers Trust 5 2000	0	99⅞	100⅛	11/3	8.31	8.31
B.F.C.E. 5¼ 99	0⅛	100⅛	100⅜	13/3	8¾	8.73
B.N.P. 5¼ 95	0	101¼	101½	10/1	8.69	8.57
B.N.P. 5¼ 99	0⅛	100¼	100½	22/3	8⅜	8.34
Britannia 5 93	0⅛	99¾	100	8/1	11½	11.51
C.C.F. 5¼ 97	0	99½	99¾	5/4	8.06	8.08
Chase Man'tn 5¼ 2009	0⅛	100	100¼	5/3	8.31	8.30
Citicorp 5 2035	0	99¼	99½	27/1	8.23	8.28
Credit Lyonnais 5⅛ 96	0⅛	100¾	101	11/4	8½	8.43
Credit Lyonnais 5 00	0	100⅛	100⅜	10/1	7.96	7.92
E.E.C. 5 90	0	99¾	100	8/1	7.94	7.95
E.N.E.L. 5 00	0⅛	100	100¼	1/3	8⅜	8.36
Ireland 5¼ 97	0	100	100¼	20/2	8.44	8.43
Lloyds Bank Perp	0¼	100¼	100½	9/6	8½	8.47
Man-Hanover 5 97	0	99⅛	99⅜	22/2	8.19	8.25
Midland Bank Perp 5	0¼	100⅛	100⅜	19/6	8⅛	8.10
Nat West Perp A 5¼ S	0¼	100⅛	100⅜	9/1	8¼	8.23
Nat West Perp B 5¼ S	0¼	100⅛	100⅜	10/2	8⅜	8.00
Royal Bk Scotland 5 Perp	0¼	99¾	100	11/6	8.44	8.45
Roy Bk Scot 5¼ 2005 £	0	99	99¼	4/2	11¾	11.85
Societe Generale 5¼ 97	0	100¼	100½	18/3	8⅝	8.59
United Kingdom 5 92	0	100	100¼	7/7	8.05	8.05
Woolwich 5 95 £	0⅛	99¾	100	19/2	11.69	11.70

Average price change On day 0 on week 0

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Ajinomoto 3 99	4/84	1053.64	131¾	132¾	+2¾	6.09
Comcast 7 2000	12/85	23.875	† 113¼	114¼	−0½	24.12
Fanuc 3¾ 98	1/84	7032.3	201¼	203¼	−0⅝	63.53
Fuji Hvy Inds 3 2000	8/85	676	93	94	−0⅜	1.25
Fujitsu 3 99	5/84	1320.9	100¼	101½	+0¼	13.24
Kumagai Gumi 3½ 2000	3/85	600	102¼	103¼	−3¼	9.63
Marui 3½ 99	7/84	1162	182⅛	183⅛	−0½	−2.26
Mitsubishi Bank 2⅞ 00	8/85	1760	100	101	+0⅝	−2.14
Mitsubishi Elec 2⅛ 00	3/85	422	102⅞	103⅞	0	8.69
Murata 3½ 2000	7/84	2398	120¾	121¾	−1⅜	13.93
Nippon Elec 2⅞ 2000	1/85	1295	121	122¼	−1⅝	43.78
Nippon Oil Co 3 2000	5/85	923	111⅝	112⅝	0	−3.55
Oki Elec Ind 3½ 99	10/84	805	101⅜	102⅜	+0⅜	3.01
Sekisui House 3 99	6/84	612	158½	160	−1⅛	6.13
Sumitomo Bank 2¾ 2000	8/85	2142	97¼	98¼	+0¼	3.07
Sumitomo Corp 2⅞ 99	5/84	593	145	146¼	+2⅜	1.45
Taiyo Yuden 3¼ 2000	3/85	1078	† 108	110	+0½	−1.74
Takeda Riken 3⅜ 2000	10/84	7663	† 88	89	−2½	6.34
Tokyo Sanyo Elec 3½ 99	12/84	772	99⅜	100⅜	0	4.26
Toshiba Ceramics 3 2000	4/85	1734.2	97⅞	98⅞	0	6.82
Nippon Oil Co 2⅛ 92 SF	3/84	1052	† 100½	101½	−0¼	13.81
Nippon Shinpan Co 2 92 SF	3/84	801	† 117	117½	+0⅝	13.63
Asics 5 92 DM	12/83	520	107⅜	108⅝	−0¼	18.04
Renown 3⅛ 90 DM	3/85	675	† 105	106	0	2.51
Sum Realty 6¼ 92 DM	2/83	338	†* 419	429	−10½	−2.08

* No information available-previous day's price.
† Only one market maker supplied a price.

Straight Bonds: The yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week – Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C. date – Date next coupon becomes effective. Spread – Margin above six-month offered rate (†† three month; § above mean rate) for U.S. dollars. C.cpn. – current coupon. Cv. yld – current yield.

Convertible bonds: Denominated in dollars unless otherwise indicated. Chg. day – Change on day. Cnv. date – First date for conversion into shares. Cnv. price – Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem – Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

INTL. COMPANIES & FINANCE

Sears subsidiary acquires 20% stake in Hagemeyer

BY DAVID DODWELL IN HONG KONG

SEARS WORLD TRADE, a subsidiary of the US retail group, yesterday completed a US$36m deal by which it will take a 20 per cent stake in Hagemeyer, the Netherlands-based trading subsidiary of Hong Kong's First Pacific International.

The deal has been under negotiation since July last year. As well as subscribing to new shares in Hagemeyer at a cost of £15.5m, Sears will acquire a majority interest in some of Hagemeyer's subsidiaries for $14.5m, and will pay $6m to refinance "certain intercompany accounts" in Hagemeyer.

In September, First Pacific International announced losses amounting to $3.3m for the first half of 1985. These were largely due to the poor performance of Hagemeyer, which accounts for over 90 per cent of First Pacific International's turnover. The deal is part of an attempt to reduce group dependence on commodities trading. First Pacific's stake in Hagemeyer fell from 69 per cent to 55 per cent on completion.

First Pacific International is the trading and distribution arm of First Pacific Holdings, which is controlled by the Liem family and associates in Indonesia. It has had troubles linked with Hagemeyer since it took control of the 85-year-old group almost five years ago.

In 1982, US customs officials investigated whether coffee shipments arranged by a Hagemeyer subsidiary had entered the US in violation of the international coffee agreement. The probe reached no clear conclusion, but a settlement cost Hagemeyer an extraordinary loss of US$382,625.

Sears will not be acquiring Hagemeyer's coffee commodity division as part of the deal. This was sold to First Pacific International for an undisclosed price with effect from December 31. First Pacific said that an improvement in world coffee prices meant that 1985 losses would not be as great as originally feared. Hagemeyer has also sold and leased back "non-strategic" property interests in Singapore.

Sears expects to use Hagemeyer's worldwide trading and distribution network to sell its products overseas. Hagemeyer has 40 subsidiaries operating in 23 countries.

Japan lifts guaranteed foreign bond ceiling

By Yoko Shibata in Tokyo

THE JAPANESE Ministry of Finance decided on Tuesday to set the ceiling on issuance of government-guaranteed foreign bonds in fiscal 1986 starting April at Y560bn ($2.77bn), up Y60bn over the current year. The increase reflects the inclusion of subway construction and sewerage system projects by the Tokyo Metropolitan Government into the nation's domestic demand expansion package, as well as a bond issue by the Kobe Municipal Authorities—

The Tokyo Metropolitan Government plans to float Y60bn of bonds, including $100m worth in the US—the first such issue in 22 years. The cities of Kobe and Yokohama plan to float Y11bn of bonds each.

Issuers will also include Japan Development Bank with Y123bn, Japan Air Lines (JAL) with Y60bn, and the Export-Import Bank of Japan with Y55bn.

The MOF plans to amend its guidelines to increase issues in the Euromarket and the US market in a shift from the previous emphasis on the Swiss market.

Ceilings on government guaranteed foreign bond issues have increased steadily from Y194bn in fiscal 1981 to Y219bn in 1982, Y409bn in 1983, and Y603bn in 1984. The fall in the current fiscal year to Y500bn was caused by Nippon Telegraph and Telephone (NTT), usually a large issuer, and the Bank of Japan not floating such bonds.

JAL to pass dividend payments

BY OUR TOKYO STAFF

JAPAN AIR LINES, the national flag carrier will pass its dividend payments for the current year to March. In his New Year's address Mr Susumu Yamaji, JAL's new president, said the company would find it extremely difficult to secure the profits needed for dividend payments. He also said JAL would barely be able to break even in the year to March 1987.

Mr Yamaji's remarks indicated that the crash of JAL flight 123 last August, which killed 520 people, requires heavy expenditure. They also reflect the impact of moves by passengers away from JAL after the worst single plane accident in aviation history.

After the August crash, JAL revised downwards its pre-tax profits projections for the current year to Y7.3bn from the initially forecast Y21.5bn, but it now seems that JAL will find it hard to achieve even the revised target.

JAL suffered a 25 per cent decrease in domestic passengers in the quarter to December. In the peak year-end and new year period, there was an 11.5 per cent fall in domestic passengers, while All Nippon Airways and Toa Domestic Airline managed to equal the previous year's record.

After skipping dividend payments in fiscal 1982 and 1983 after a plane crash off Tokyo International Airport at Haneda in January 1982, JAL resumed dividend payments in 1984.

● Mr Kaoru Ii, the president of Sanyo Electric Company is prepared to resign to take responsibility for the marketing of faulty oil heaters blamed for four deaths and 41 cases of illness from carbon monoxide poisoning, AP-DJ reports from Tokyo.

The president of the major home electric appliance company will offer his resignation to shareholders at a general meeting in February, the company said.

John Elliott on a London-based businessman's troubles in India

Swraj Paul withdraws from share battle

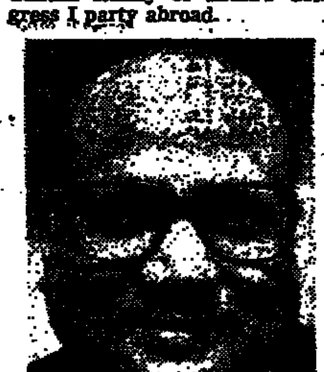
MR SWRAJ PAUL, a London-based Indian-born businessman who has been fighting a controversial company share transfer battle in New Delhi for the past three years, has decided to reduce his personal involvement in India.

This follows both a boardroom setback in his attempt to buy shares in Escort, a New Delhi engineering and automotive company, and a tussle with his Calcutta-based brothers over the management of £530m ($761m) worth of chemical and fertiliser projects being promoted by the Paul family in India.

Yesterday, shortly before he left for London at the end of a three-week holiday in India, Mr Paul said for the first time that he was prepared to sell stakes of 7½ per cent and 13 per cent he bought early in 1983 for £8m in Escorts and in DCM (formerly Delhi Cloth Mills), another major New Delhi company. He feels "let down" by the Indian government and public sector financial institutions and said: "If the institutions want me to sell, I will I will sell."

The decision has come at a time when Mr Paul has been suffering other business setbacks. His Caparo group in the UK has had financial problems with Fidelity, an electronics company it bought 15 months ago. Mr Paul also says he expects to lose $3m as a result of the closure of the loss-making Nova Park luxury hotel in Paris of which he is a former chairman as well as an investor.

Mr Paul was a close confidante of Mrs Indira Gandhi, the former Indian Prime Minister who was assassinated 14 months ago. He has consistently denied suggestions that he was responsible for investing the money of either the Gandhi family or India's Congress I party abroad.



Mr Swraj Paul, chairman of the Caparo group

His controversial share deals in India started three years ago. He bought shares in Escorts and DCM for his Caparo group using special facilities introduced by the Indian government to encourage investment in India by non-resident Indians living abroad.

His holdings equalled or surpassed those of the Nanda family which has management control of Ecorts and the Shriram family of DCM. His Calcutta brothers' Apeejay tea and steels company bought small stakes in both companies.

Escorts and DCM refused to register the shares and a major row blew up in 1983, with the Indian industrial establishment fearing the predatory powers of rich non-resident Indians.

After lengthy court battles over the share purchases, the Indian Supreme Court delivered a judgment last month which was a setback for Escorts. But it failed to clear Mr Paul's share purchases and also endorsed the boardroom authority of public sector financial institutions, which own controlling stakes in both companies.

The main blow to Mr Paul's pride came in the past fortnight when the financial institutions backed the family managements of both DCM and Escorts, even though the share ownership issue is still to be resolved by the Reserve Bank of India following the Supreme Court judgment.

In Escorts, the institutions renewed five-year management contracts for Mr Hari Nanda, the founder chairman, and his son, Rajan.

"I am no longer going to try to influence the running of these companies. I am quitting," said Mr Paul, who has accused the families of corrupt and inefficient management.

The dispute, however, is far from over and it seems likely that Mr Paul's brothers in India will continue the battle.

Mr Surrendra Paul, the youngest of four brothers and chairman of the Apeejay group, is taking over responsibility for constructing a £440m fertiliser plant in north India which the family won in competition against ICI and other Indian companies, and two polyester fibre and caustic soda plants costing £90m.

Mr Swraj Paul says he is "withdrawing from emotional involvement" in these projects but will continue to provide off-shore finance. He is also shelving applications to the government for building an off-shore funded £1.5bn gas fired steelworks in Goa, south of Bombay, and for electronics plants in Calcutta's north-eastern state of West Bengal.

Mr Paul estimates that his high profile entry into the Indian share market three years ago has cost him £5m in lost interest and foreign exchange on the £8m share purchases, for which he says he may sue his bankers, the Punjab National Bank. He has shaken up the Indian industrial establishment and raised questions about the feudal systems operating in many family companies, but he has failed, following Mrs Gandhi's death, to maintain his political clout.

Hong Kong's 'red capitalist' shrugs off a political role

BY DAVID DODWELL IN HONG KONG

WANG GUANGYING, China's "red capitalist," is dedicating 1986 to "talking less and doing more." The policy is Peking's, and was declared by the People's Daily to be the nation's new year resolution, but is particularly appropriate for the man who has had more than his share of controversy and political limelight since establishing China Everbright in Hong Kong two years ago.

For many, Wang represents much of what Deng Xiaoping, China's octogenarian leader, is trying to achieve as he tries to undo the damage of decades of political upheaval, puts greater emphasis on economic growth, and opens the country up to the outside world. As a "red capitalist," he embodies the logic of—and contradictions in—the policy of "one country, two systems" that is being used as a basis for reuniting the mainland with Hong Kong, Macao and Taiwan.

Since he established China Everbright in April 1983, his every move has been dissected by local political and business groups, which see his presence as more political than commercial. This has been helpful to Wang Guangying; some business deals might not have come his way had partners not been convinced of his influence in Peking. But it has also hampered him: "People treat me differently from an ordinary businessman, and I think this is unfair," he complains.

But, Wang Guangying is not an ordinary businessman. Born in 1919 in Peking, the son of a minister in the Government of the northern warlords, he studied chemistry at Peking's Catholic Fudan University.

From the earliest stage, there was a strong international influence on the family. The "Ying" in Wang Guangying's name is a contraction of the Chinese word for England, and reflects the fact that he was born when his father was passing through London on the way to a peace conference in Paris on behalf of his government. His younger sister, Wang Guangmei, draws the "mei" in her name from the contraction for America. This time the conference had been in Washington.

Even as a raw graduate, Wang Guangying was bent on an entrepreneurial career. He used the 2,000 Chinese dollars left over from his wedding in 1943 to set up a business in Tianjin in partnership with a friend: "I wanted to modernise China by setting up this chemicals factory," Wang recalls.

By 1954 Wang Guangying was set on a political as well as entrepreneural career, he was appointed vice chairman of the China Democratic National Construction Association, the country's main body for one-time entrepreneurs, and a deputy to the National People's Congress—his standing no doubt enhanced by the fact of his sister's marriage to Liu Shaoqi, who was to become Mao Zedong's second-in-command soon after liberation.

While other factory bosses were being thrown out and re-educated, Wang went unscathed: "I didn't suffer because I could hear the policies directly from Liu Shaoqi, Zhou Enlai and Mao himself."

Wang's own nightmares began with the Cultural Revolution, when Liu was thrown out by Mao, vilified as a "renegade, traitor and scab." Big character posters in Peking demanded "Kill Wang Guangying, pull out Liu Shaoqi, make Wang Guangmei stink." Wang was thrown into Peking's Qingcheng prison (where the gang of four are now incarcerated) and spent most of the next eight years in solitary confinement.

"I spent a lot of time watching the spiders spinning webs in one corner of my cell. Do you know it takes 14 days for a spider's eggs to hatch?"

When he was released in 1975, Wang was restored to high office by Den Xiaoping, soon to become vice chairman of the All China Federation of Industry and Commerce, a position re still holds today. "Looking back at the days of the cultural revolution, they were ridiculous," he says. "Nearly 100m people suffered during that time, either directly or indirectly, but it is difficult to settle accounts. The most important thing is to learn a lesson and prevent it from happening again."

Through Everbright, Wang Guangying is doing just that. It is hardly surprising that Hong Kong people refuse to see him and his company as they would most others in the territory. Everbright is intended to be China's first "trans-national corporation." It has a New York office, auspiciously on the 88th floor of the World Trade Centre, and is seeking offices in Europe. It has a general agency in Peking and offices in Wuhan, Guangdong, Tianjin and Zhuhai.

Unlike other Chinese enterprises set up in the territory, which are extensions of businesses on the mainland, Everbright is a wholly local creation. Despite an initial impression that it was going to branch into all areas of Hong Kong's economy, it has after two years settled into the role of middle man and trader: "We act as an organiser," Wang says. "We find funds, act as an introducing

> **'In China they don't call me a capitalist—they call me an entrepreneur trying to do something for his country,' Wang says. He is at ease with what many outside see as a contradiction between China's socialist government and the re-emergence of entrepreneurs.**

agency, and provide confidence for foreign partners.

"I attach great importance to making calculations, and making profits. If we make a loss, no-one will help us," he insists. Many who initially thought he would perform the dual function of bolstering confidence in Hong Kong whenever a political hiccup unsettled the economy, and nurturing projects on the mainland at "patriotic" prices, have found their views contradicted by several recent business moves.

Most prominent was his controversial withdrawal from a HK$1bn (US$128m) deal with property magnate Li Kashing. Early reports of the deal had boosted a flagging property market. Abandonment of it drew accusations of market manipulation and insider dealing which have been the subject of a government tribunal for over a year.

Despite this, much of Everbright's Hong Kong-based business is unlikely to generate significant profits for many years. Of 20 projects in China, most are linked with infrastructure development

Wang Guangying insists that these deals are exploratory in a China that has stood still for the better part of half a century, they are urgently needed, but would never be profitable, even if Wang was not feeling his way with inexperienced staff. The shortage of well-trained Chinese is by far the greatest limit on growth, he claims.

In Hong Kong, many feel there has been more talk than action. There have been long delays on a major property development in Admiralty, near to the central business district. Most projects in nearby Zhuhai amount to cleared sites and little else.

The company was linked with a contract to build a new cross-harbour tunnel in the territory, but has now washed its hands of the deal. Withdrawal from the property deal with Li Kashing is part of Hong Kong's corporate folk-lore.

Happily, the group's core business of introducing foreign equipment and technology into China has grown much more rapidly, and is generating most of company profits. Wang Guangying claims Everbright has imported goods worth US $600m so far. Little of this is noticed in Hong Kong, since it is handled exclusively by Everbright's Peking subsidiary.

"In China, they don't call me a capitalist—they call me an entrepreneur trying to do something for his country," Wang says. He is at ease with what many outside see as a contradiction between China's socialist government, and the re-emergence of entrepreneurs who are being allowed to get rich from their own endeavours.

"You can't say a planned economy is socialist any more than you can say a market economy is capitalist. Even in capitalist economies you have plans, why can't you have elements of a free market in socialist ones?" he asks.

As Wang Guangying settles into talking less and doing more, there will be many in Hong Kong who take heart from such words just 11 years ahead of reabsorption into China. As one prominent businessman in Hong Kong noted: "May he and his kind in China live long."

TECHNOLOGY

Peter Marsh on efforts to simplify the layout for gate-array devices

Route cause of a chip problem . . .

HOW DO you devise the shortest possible route that takes in the capitals of all 50 US states? That conundrum, known as the travelling salesman problem, has kept mathematicians (and batteries of powerful computers) occupied for decades.

Electronics engineers working with relatively new types of chip called gate arrays encounter similar difficulties. They have to devise ways to link up as many as 3,000 electrical contacts impregnated on a tiny chip in such a way that the semiconductor performs a specific set of operations.

In gate arrays, sold by companies such as Fujitsu, Motorola, NEC, Ferranti, Texas Instruments and LSI Logic, chips are produced in a partially completed or "semi-customised" form before having the circuit layout finished to meet a specification from the customer.

Each contact on the chip may have to be linked to as many as 20 other points to make the final device suitable for, say, a processing operation in a particular form of product such as an electronic testing system.

For a moderately complicated device, the problem can translate into devising 10,000 different interconnections.

"You can easily get your knickers in a twist," observes Dr Andy Hopper, a director of Qudos, a new company in Cambridge which attempts greatly to simplify the layout procedures for gate-array devices with a set of low-cost computer-aided design techniques.

Peter O'Keeffe (left) with Dr Andy Hopper and Dr Haroon Ahmed.

Qudos, backed with a modest investment of about £500,000, plans with these methods to introduce a "do-it-yourself" philosophy into the business of completing the design of gate-arrays.

It seeks to disrupt the pattern in which developers of electronic hardware are faced with having to pay large sums to specialised design teams (often from the manufacturers of the gate arrays) to do this job for them.

As a result of low overheads and inexpensive software and hardware methods, Qudos hopes to charge clients "a few thousand" pounds for turning out on their behalf a batch of chips completed to a specification.

The customer, which would normally be an electronics enterprise employing fewer than 100 people, would do the design work itself, with a £15,000 computer package (see story below).

The bill for the work contrasts with the £20,000-£50,000 that an established chip concern would normally charge for completing a gate array in this manner.

In essence, Qudos, which reckons Britain alone contains 5,000 small companies which could use its services and projects an annual turnover in the first year of £750,000, is trying to usher in to the chip business what home repair kits and expensive power tools have already brought to areas such as car maintenance and decorating.

Moreover, use of gate arrays is a fast growing part of the world's semiconductor industry. Sales of the devices totalled some £600m in 1984, a 50 per cent increase on 1983.

According to some projections, sales may grow fourfold by 1989 to some £2.5bn. That is out of the worldwide market for semiconductors which is currently worth some £18bn a year.

But Qudos may not have chosen the best time to start its business. Sales of semiconductors are dipping and, as a result, established gate-array companies are cutting their charges for completing the layout on the chip.

The price-cutting has in recent weeks led to the demise of a second UK concern which attempted to operate a similar business to Qudos. Array Logic, set up in Melbourn, Cambridgeshire, a year ago with backing of £4m, has called in the receiver after failing to generate enough business to cover expenses.

A rueful Dr Bob Whelan, ex-managing director of the company, said that some gate-array companies, particularly Japanese concerns, were discounting their prices greatly. In some cases, they were doing the final layout for nothing, which made it imposible for Array Logic to compete.

"We wish Qudos all the best," said Dr Whelan. "But they may find they suffer the same problems."

According to Mr Peter O'Keeffe, Qudos's managing director, his company will aim to recruit as customers smaller companies than Array Logic. The company is also depending on gaining substantial orders from chip-research groups in universities.

By targetting small concerns which currently do not make much use of gate arrays, Mr O'Keeffe, Qudos's managing any consequences of the price-cutting battles waged by the chip companies.

. . . and a Cambridge solution

BOTH QUDOS'S technology and the people behind it are testimony to the network of connections in Cambridge which has made the city Britain's fastest growing centre of small, technology-based concerns.

In particular, Qudos has strong links with Acorn, the Cambridge computer company in which Olivetti of Italy took a majority stake after the enterprise ran into financial difficulties earlier this year.

Mr Peter O'Keeffe and Dr Andy Hopper, two of Qudos's directors, are former directors of the computer company. Also on the design concern's board is Dr Hermann Hauser, Acorn's founder who lost his job as a chairman during the Olivetti take-over but who is still an Acorn director.

The software design tools that Qudos will use are based on techniques developed jointly by Acorn and Cambridge University's computer laboratory over the past few years. Dr Hopper, who is a full-time lecturer at the laboratory, played a key role in this work.

Also in the picture is Dr Haroon Ahmed, head of Cambridge University's microcircuit engineering laboratory, who is another Qudos director. Dr Ahmed has worked on Acorn's behalf on new techniques to impregnate chip patterns onto silicon.

Completing the Cambridge connection is the fifth Qudos director, Dr Paul Auton, managing director of Cambridge Consultants, a 200-strong contract-research company in Cambridge with annual sales of £6m.

Dr Auton's enterprise has invested £100,000 in Qudos, with a further £250,000 coming from Prelude, a Cambridge-based venture capital concern backed by the pension funds of British Rail, British Gas and the country's water authorities.

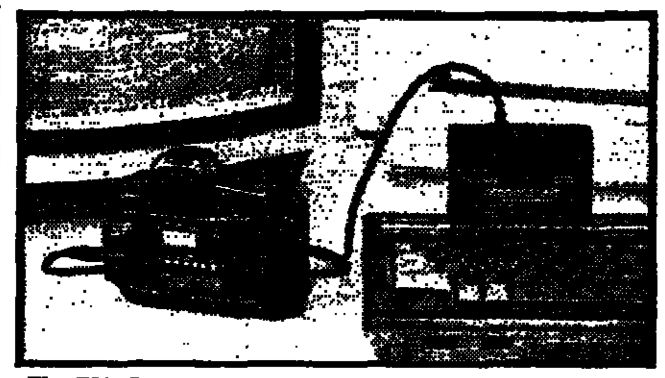
Several small electronics concerns on the Cambridge science park, where Qudos is based and which has about 50 tenants, are trying out the company's design software. Qudos thinks that about 30 of the companies could eventually become regular users of the software.

In Qudos's process, electron-beam machines designed by Dr Ahmed's laboratory will do the physical job of completing the interconnections of gate-array chips. Qudos will buy the latter from companies such as Texas Instruments, Ferranti and Philips.

In electron-beam hardware, sharply focused electrons trace a circuit pattern on a chip substrate according to instructions in a computer program. The electrons can "draw" the very fine lines needed to define the thin strands of metal used in the interconnection.

Qudos will use two electron-beam machines, each built by subcontractors in Cambridge (such as Cambridge Electronic Design and George Lister) at a cost of some £200,000. That compares with the £1m-£4m cost of commercial electron-beam machines, made by companies such as Perkin-Elmer and Varian.

Under Qudos's plan, customers for its services will buy a £15,000 package which includes the chip-design software and a scientific work station (high-powered computer) made by Acorn. The price also includes a week-long training course at Qudos's offices.



The T90, Interface Unit DMB and MSX personal computer.

Camera that can be connected to a personal computer

CANON, the world's leading single-reflex camera maker, has launched a top-of-the-range camera, the T90, in answer to the successful X7000 from Minolta, its main rival, a year ago.

Like its competitor, the T90 contains several innovations. For example, it is the first conventional machine which can be connected to a personal computer. Using the link it is possible to enter details about each frame such as exposure, date taken and reference number.

This is aimed at professionals such as doctors and dentists, for example. It is a step towards the day when photography becomes totally electronic, as has been demonstrated with Sony's Mavica camera.

With the T90, Canon wants to strengthen its position in the SLR market which has been in decline for several years. Only the top of the range, where cameras cost more than £200, has been growing. This sector includes professional and enthusiastic amateur photographers.

Camera makers believe that bringing out more sophisticated cameras is the way to woo customers.

The T90 is in that mould. Canon says it contains all the electronic features, apart from automatic focusing, likely to be needed in a camera. Apart from the fact that it has eight picture modes, it is one of the fastest on the market, capable of shutter speeds of 1/4,000th of a second. Canon says only a few other cameras can operate as quickly but all need a lot of power. The T90, by contrast, can run both the shutter and high-speed motor drive on four AA size batteries.

The high-speed shutter, which Canon calls its permanent magnet shutter, has required five technical innovations in shutter mechanics. These include lightweight, specially-coated superduralumin shutter blades, designed to withstand the shock of high-speed working but light enough to move quickly with little effort and low power consumption. A novel spring mechanism, acting like a car's turbocharger, supplies an additional burst of power when needed.

The T90 also includes three tiny motors instead of the normal single motor to control film frame advance, shutter and automatic rewind. This has resulted in a relatively low-power consumption and compact motor drive compared with other models.

The electronics system, which controls the camera's operation, is the most complicated developed by Canon. There are two microcompressors which between them control sequence control, display information, exposure calculations and motor control. The T90 will be available next month at just under £400.

ELAINE WILLIAMS

Ultrasonic flaw detector

A NEW ultrasonic flaw detector from Wells Krautkramer is built around what the manufacturers claim to be the most sophisticated signal amplifier fitted in any portable instrument currently available.

The instrument, designated the USL 42, can be used to monitor volume production components on line with the facility for hard copy recording of test data.

Wells Krautkramer says it affords sufficiently high resolution to be used in the aerospace industry as well as for the inspection of castings, forgings and weld examinations.

It is possible to inspect anything, it says, from attenuative composites which require low frequency ultrasound to thin section high strength alloys which need good near-surface resolution.

More on 0462 678151.

Clean-up time in the laundry

ADMINISTRATION is the bane of the small laundry—which is why Mr Jim Swingler of Saracen Computer Systems, Uttoxeter, Staffordshire, believes he will clean up with a software package which eliminates much of the paperwork connected with pricing, invoicing and delivery.

He says there is great potential for the package among small and medium-sized laundries: "One of its chief advantages is that it enables them to cope with additional business without an increase in clerical staff," he says.

The package, in use in a laundry in Oldham, Greater Manchester, handles 800 van calls a week, the work of two clerical staff.

More on 08893 66848.

UK COMPANY NEWS

Beazer closer to gaining control of French Kier

BY DAVID GOODHART

C. H. Beazer yesterday came closer to taking control of French Kier when it increased its stake in the construction group from 38 per cent to 43 per cent. However, talks over a management structure for the combined company between Mr John Mott, French Kier's chairman, and his counterpart, Mr Brian Beazer, broke up after only 20 minutes with no agreement.

A statement released on behalf of French Kier said: "Beazer was unable to satisfy the objectives of the board of French Kier with regard to the arrangements for safeguarding the long-term future of a Beazer/French Kier merged group."

Following the 27 per cent increase in the Beazer offer on Monday the Bath-based housebuilder will clearly have no trouble taking control but is clearly keen to get a positive recommendation from the French Kier board.

The main stumbling block to such agreement appears to be divergent views on the role of non-executive directors, and in particular on the role of Mr John Mott, who is himself a non-executive.

French Kier and its advisers, Morgan Grenfell, believe that the presence of heavy-weight outside directors is a necessary influence especially on a company like C. H. Beazer which has grown very fast very quickly.

Mr Mott repeated yesterday that Beazer's new offer made the differences between the two companies "only marginal" on price. He would not comment on the disagreement over management structure. But he said no further talks had been planned and the French Kier board would make a decision on what recommendation to make to shareholders when the new offer document was officially dispatched on January 11.

Beazer's cash offer of 285p a share values French Kier at £141m with the share offer of four Beazer shares plus £13.35p in cash for every 11 French Kier shares valuing each share at 292p, 7p above last night's closing price of 285p.

Pepe jumps 54% to £1.9m

GOOD PROGRESS has been made by the Pepe Group in the half year ended September 30 1985. And the present level of trading gives confidence that the group will enjoy another successful year, says the chairman Mr Roger Rowland.

The group designs, imports and wholesales men's and ladies' casual wear and jeans. Its turnover in the half year shot up by nearly 61 per cent, from £8.78m to £14.13m, while the pre-tax advanced by 54.3 per cent, from £1.21m to £1.86m.

Pepe came to the USM last March with a forecast of £2.5m profits for the year ending March 31 1985. In the event the group made £2.63m and paid a final dividend of 1.5p net—the annual indicated rate was 3p.

As promised, the group is initiating interim dividends and has declared a payment of 1.5p.

Mr Rowland says in the half year the cautious expansion continued in the US, with sales rising substantially as customer outlets grew to over 500. All Pepe merchandise was well received, especially the jeans.

The market in the UK was good and sales of all products increased, he reports. The new ranges of casual wear, for ladies and youths, attracted great interest when introduced and this bodes well for the future. The first benefits from shoe franchises were received. Pepe Ireland continued to prosper.

The chairman says the new headquarters at Willesden are nearly completed, and the group will be installed by the end of this month.

After tax £829,000 (£545,000) and minority £14,000 (£13,000) the net attributable profit for the half year came out at £1.02m (£648,000). Earnings are shown to be 4.3p (3.6p) per share.

● comment

The unfashionability of fashion stocks gave Pepe's shares a serious battering immediately after the company's flotation last March, but the combination of last year's strong full-year results and yesterday's interims has restored confidence to the point where the shares are most of the way back to their 100p issue price. The absence of any geographical or product breakdown at the half-way stage leaves the precise source of the profits growth a bit of a mystery, but it seems to be an all-round affair. Pepe continues to defy the gloomy trend for denims and enjoyed better-than-expected results for its quality jeans both at home and abroad, while its cautious approach to the US market and its abstinence from the temptations of retailing seem to have saved it from the misfortunes which have afflicted French Connection and Cecil Gee. Some £3.8m is probably well within reach for the year, putting the shares, up 11p at 96p, on a prospective p/e ratio of under 11 after a 44 per cent tax charge. With continued growth in prospect from the launch of women's and children's ranges, the rating still looks undemanding.

BHS-Habitat unconditional

The £1.52bn merger between Habitat-Mothercare and British Home Stores has been declared unconditional. By Monday afternoon acceptances for the offer had been received for 56.9 per cent of BHS shares and 72.05 per cent of Habitat's. The offer will remain open until further notice.

Asprey surges to £5.55m at six months

GROWTH AT Asprey gathered pace strongly during the opening half year and at the pre-tax level profits showed an improvement of £2.26m at £5.55m.

Mr John Asprey, the chairman, says the results were unusually high and reflected a number of major transactions effected during the period.

He tells shareholders that business remains buoyant and adds that as he indicated in his 1984-85 statement a substantial improvement in trading levels is expected for the current year as a whole.

For the six months under review (to September 30 1985) the London-based jeweller and antique dealer saw its turnover surge from £13.26m to £23.16m.

Tax accounted for £751,000 more at £2.29m to leave earnings at 17.66p (9.29p) per 25p share.

The interim dividend is being lifted from 2.33p, adjusted for last year's two-for-one scrip, to 3.5p net.

The costs incurred by the capitalisation issue and the scheme for the repurchase of its own shares amounted to £32,000 and was charged as an extra-ordinary item.

Last November the New York store completed its move into larger premises on Fifth Avenue and initial trading results are described as encouraging by Mr Asprey.

The 1984-85 year was a record for the group. Turnover pushed ahead by only 3.38 per cent to £29.2m but at the pre-tax level profits advanced by 22 per cent to £7.57m.

Asprey's ordinary shares are traded on the Unlisted Securities Market.

● comment

The market was better pleased with Asprey's results than it would have been with a gift of the choicest piece of jewellery. Reacting to the news of a 68 per cent profit increase, the shares rose by 48p to 488p, adding about £9m to the value of the company. Apparently it does not take many of the mega rich to walk into Asprey and buy a "substantial item" (ie worth more than £250,000) to make a dazzling impression on the company's results. Even though the instance of such big spenders may be lower in the second half, underlying trading is satisfactory, and Christmas seems to have been fairly healthy. Extra costs of the move to a larger shop in New York will be shared between the first and second halves of the year, while the benefits of the move could take two or three years to become fully apparent. Meanwhile the art gallery in Cork Street is making encouraging progress, although its small as a percentage of the group. After a slightly slower second half, profits of £10m for the full year are likely, implying a p/e of 15. Even if the market's enthusiasm were to cool somewhat, the shares would be supported by the company's presence in the market as a buyer of its own shares.

CHI lifts stake

CH Industrials has increased its stake in Banro Industries by just over 1 per cent, from 26.5 per cent to 27.8 per cent. CHI's £6.2m bid for its fellow car components company lapsed last April. Mr Tim Hearley, chairman of CHI, said the increase was evidence of a continuing interest in Banro as an investment.

LADBROKE INDEX
1,137-1,141 (−8)
Based on FT Index
Tel: 01-427 4411

Glen bitter over Hillsdown stake

BY FRANK KANE

Hillsdown Holdings yesterday announced that its recommended offer for Pyke Holdings had been accepted by holders of nearly 50 per cent of the shares—and further embittered Glen International, the financial services company which has built up a 29 per cent stake via a tender offer.

The level of Pyke acceptors—44.18 per cent was added to Hillsdown's existing holding—was surprising because of Glen's successful tender, which had seemed to put a brake on the all-share bid; and because Pyke's shares have traded consistently above the value of the offer. They closed last night at 425p, down 15p on the day, against an implied value of 411p.

Mr Terry Ramsden, Glen's chairman, said: "It is incredulous to me that a *few* institutions who handle public money can accept paper at a discount to the cash value of stock in the open market. I can only reiterate to shareholders not to accept, but to take advantage of the disparity."

For Hillsdown, joint chairman Mr Harry Solomon, said: "Perhaps they (the acceptors) have got a lot of confidence in our shares. Truthfully, I have no other explanation." He announced that the offer was extended until January 28.

The *bid* appears to be approaching a form of stalemate. Hillsdown seems likely to get a simple majority, but has ruled out any increase in the terms to attract other large instutions. It is understood that some of these sympathise with the Glen position, and could form a substantial dissident minority if Hillsdown were to go unconditional at 50 per cent.

"This is an equally divided situation," Mr Ramsden said last night. "I don't think it's finished yet."

Charles Batchelor on a growing City trend in takeover tactics

Getting caught up in the tender trap

THE FAILURE of Hillsdown Holdings to clinch control of Pyke Holdings yesterday was due largely to last month's successful tender offer for Pyke from Glen International.

Glen's achievement provided a significant boost for the tender technique of acquiring a strategic stake in a company, which was introduced only five years ago and is becoming increasingly popular.

Under a tender the offeror bids for a set number of shares (at which a full bid would be triggered), usually enough to take his holding up to 29.9 per cent, at either a fixed or minimum price.

Acceptances are scaled down if the tender is oversubscribed or, in the case of a maximum price tender, the purchase price is fixed at the lowest possible price needed to fulfil the tender target.

A tender allows the bidder to build a large minority holding in the target company without being obliged to make a full bid.

It gives the bidder time to assemble the funds to make a full bid, to deter a potential rival or to study its target at close quarters.

"It's a good way of testing the water," said Mr Mike Whittles of stockbrokers L. Messel, advisers on three of the recent tenders.

When the tender was first introduced in the UK it enjoyed a run of success. However, of three offers made last year only Glen's succeeded.

The failure of those launched by British Land, the property group, and by C. H. Beazer, the house-builder, had cast doubts on its effectiveness.

Stylo, the retailing group which was British Land's target, was saved by purchases of its shares by Town Centre Securities, a company chaired, like Stylo, by Mr Arnold Ziff.

Beazer's tender for SGB, the scaffolding group, was overtaken by a full takeover bid from BET.

"Everyone told us we would fail," said Mr Michael Gibbs, deputy managing director of London and Continental Bankers, adviser to Glen. "We studied the previous tenders to see why they had not succeeded."

Glen and its bankers calculated the price would have to be pitched high enough to ensure shareholders had a good average price on both shares successfully tendered and any they had to sell in a subsequently depressed market should the offer be oversubscribed.

Tenders were introduced in 1980 by the Council for the Securities Industries as part of a crackdown on "dawn raids"—the sudden build up of a large stake in a company through market purchases.

The aim was to guarantee fair treatment for all shareholders since small investors were inevitably left out when raids were mounted.

The tender rules laid down that a tender had to be advertised and notified to the Stock Exchange at least seven days before it closed, ensuring, in theory, that all shareholders would have the opportunity to respond.

The rules also set limits on the information the bidding company could provide to back up the tender to prevent the relatively simple tender process taking on the proportions of a full takeover bid.

At the same time the rules governing substantial acquisitions of shares limited bidders to a 15 per cent initial stake in their target with a maximum of five (since raised to 10) per cent in the following seven days.

Allianz, the West German insurance group, was the first to act under the new tender rules, combining a dawn raid on Eagle Star, the British insurer, which netted 14.9 per cent of the shares, with a tender for the remaining 15 per cent.

Allianz got most of what it wanted, obtaining a further 13.2 per cent by the tender, but failed in its long-term aim of winning control of Eagle Star.

TENDER OFFERS AND THEIR OUTCOME

Date	Offeror	Stake gained %	Target	Outcome
Dec 85	Glen Intl.	16.9	Pyke Holdings	Succeeded
Oct 85	C. H. Beazer	25	SGB Group	Failed
Jan 85	British Land	25.7	Stylo	Failed
July 84	RTZ	14.9	Enterprise Oil	Succeeded
June 84	Atlantis Inv.	29.9	Country Gent's Association	Gained 11.3%
Sept 83	Hawley Group	9.8	Cope Allman	Succeeded
Feb 83	St. Piran	6.3	Westminster Prop.	Succeeded
Nov 81	Bank & Portland	15	Braham Millar	Succeeded
June 81	Allianz	15	Eagle Star	Gained 13.2%

Two important refinements have been made to the tender since its inception. They are:

● The distinction between on and off-market tenders. On-market tenders require the bidder to advertise his intentions but the tender is then handled through his stockbroker. An off-market tender requires an advertisement but is made directly to shareholders by-passing the stock exchange floor.

Off-market tenders may carry a share alternative as well as the traditional cash offer. They also permit the bidder to set a relatively high minimum level on acceptances. On-market tenders may not set a minimum limit higher than 5 per cent of the equity, but many bidders want more than that.

The off-market tender was pioneered in early 1983 by Mr Jim Raper, a perennial thorn in the side of the City.

St Piran, his mining and housebuilding group, bought 23.5 per cent of Westminster Property Group and launched a tender for a further 6.3 per cent.

The ban then in place preventing Mr Raper from dealing with the City forced him to launch an "off-market" tender, advertising directly to shareholders without going through the Stock Exchange.

● The top-up option. This guarantees accepting shareholders an additional payment if a higher bid is subsequently made for the target company and has been a feature of the last two tenders — Beazer for SGB and Glen for Pyke.

"Soon nobody will be able to make a straight tender," said Mr Whittles. "Everyone will expect a top-up."

But whatever subtleties emerge in future the tender appears to have established itself as a useful market tool.

Siebe buys in Germany

Siebe, the engineering and safety products group, has acquired the German specialist garage equipment company Deutsche Tecalemit, a distant cousin of the British Tecalemit, acquired in a hotly-contested takeover at the end of 1983.

Siebe has paid DM 38m cash (£11m) for the private company which has two manufacturing subsidiaries in Germany and further subsidiaries in Sweden, Spain and Austria. Turnover in 1985 was £35m and unaudited pre-tax profit £1.4m.

Mr Barrie Stephens, group managing director of Siebe, said yesterday that he had begun talks with the owners of the German company about a year and a half ago, soon after the acquisition of the British Tecalemit.

"The German research and development will be crucial for our move into the US market later this year," he said.

Fitch Lovell purchase

Fitch Lovell, the food manufacturer and distributor, has acquired Ashmount, a manufacturer of chicken and turkey products, for £3.2m in cash and loan stock, with further payments dependent on the company's future profits record.

Ashmount's pre-tax profits for the year to September 30 totalled £308,000 and net assets at that date were £386,000. Fitch is paying £1.5m in cash and £1.7m in two forms of unsecured loan stock.

Mr Geoffrey Hankins, chairman of Fitch, said the acquisition would increase the group's involvement in "healthy eating" value added products. Fitch's Trent and Truran & Tarr meat processing subsidiaries already have trading links with Ashmount.

Winterbottom profits at £0.58m

Winterbottom Energy Trust is lifting its dividend by 51 per cent from 1.55p to 2.34p net for the year ended November 30, 1985, on earnings ahead from 1.56p to 2.35p. The final is 2.14p.

Gross investment income rose to £1.31m (£1.08m), while the net profit reached £584,000 (£396,000) after tax of £407,000 (£320,000).

Current year earnings should be similar to those reported. The company's policy is directed towards capital growth in a rapidly changing environment, and earnings and consequently dividends are likely to be volatile, the directors warn.

On the basis that earnings were temporarily above trend, the dividends for the two previous years comprised a basic and special payment. The further substantial rise in earnings for 1984-85 has made attempts to establish a normal level of earnings unrealistic, and the directors decided not to continue with that division of the dividend.

At November 30 the net asset value was shown at 100.5p, after prior charges at par, compared with 101.9p a year earlier. By the beginning of this week the value had improved to 106.8p (108.9p).

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corre-sponding div.	Total for year	Total last year
Asprey‡ ....int	3.5	Jan 27	2.33*	—	6.67*
A. G. Barr	6.7	April 8	5.75	8.45	7.5
Robert Horne Ord and A	2†	—	1.5	3.25	2.5
London Investment ...int	0.47	Feb 28	0.44	—	1.16
Pepe Group‡ ....int	1.5	April 7	—	—	1.5
Weber Holdings	3	—	2	3	2
Winterbottom Energy ...	2.14	—	1.35¶	2.34	1.55

Dividends shown in pence per share except where otherwise stated.
* Equivalent after allowing for scrip issue. † On capital increased by rights and/or acquisition issues. ‡ USM stock. ¶ Included 0.85p special.

Over-the-Counter Market

1985/86 High	Low	Company	Price	Change	Gross div.(p)	Yield %	P/E Actual	P/E Fully taxed
146	118	Ass. Brit. Ind. Ord. ...	118	—	7.3	6.2	7.2	6.7
151	121	Ass. Brit. Ind. CULS...	121	—	10.0	8.3	—	—
75	43	Airsprung Group	73xd	−2	6.4	8.8	12.2	15.9
46	33	Armitage and Rhodes...	38	—	4.3	11.3	4.7	5.7
168	108	Bardon Hill	166	−1	4.0	2.4	21.0	21.8
64	42	Bray Technologies	55	—	3.9	7.1	6.7	7.7
201	136	CCL Ordinary	136	—	12.0	8.8	3.3	3.2
152	97	CCL 11pc Conv. Pref....	97	—	15.7	16.2	—	—
130	80	Carborundum Ord. ...	116	—	4.9	4.2	5.7	9.0
94	83	Carborundum 7.5pc Pf.	91	—	10.7	11.8	—	—
65	46	Deborah Services	56	—	7.0	12.5	5.8	7.7
32	20	Frederick Parker Group	20	—	—	—	—	—
83	50	George Blair	77	—	—	—	3.1	5.7
62	20	Ind. Precision Castings	60	−1	3.0	5.0	16.8	13.2
218	172	Isis Group..............	176xd	—	15.0	8.5	13.5	20.2
115	101	Jackson Group	117	—	5.5	4.7	7.9	7.9
293	228	James Burrough	280	−3	15.0	5.2	9.1	9.1
95	85	James Burrough 9pc Pf.	95	—	12.9	13.6	—	—
85	73	John Howard and Co.	73	—	5.0	6.9	5.7	9.0
225	141	Linguaphone Ord. ...	160s	—	—	—	6.6	6.9
96	90	Linguaphone 10.5pc Pf.	90s	—	15.0	16.7	—	—
710	570	Minihouse Holding NV	710	—	6.9	0.9	31.0	29.5
82	32	Robert Jenkins	71	—	—	—	9.2	20.3
34	28	Scruttons "A"	30	—	—	—	—	7.7
87	67	Torday and Carlisle ...	67	—	5.0	7.5	3.4	6.1
370	320	Travian Holdings	325	—	4.3	1.3	18.5	18.2
42	25	Unilock Holdings	42	—	2.1	5.0	11.4	11.2
133	93	Walter Alexander	133	+1	8.6	6.5	7.5	9.2
226	195	W. S. Yeates	200	—	17.4	8.7	5.7	9.8

s=Suspended.

Yes, you've told us how badly Distillers is run, but what makes you think you could do better Mr. Gulliver?

GULLIVER The changes that are necessary at Distillers are so far reaching, they can only be introduced from the outside. We've done this already with a similar company – Allied Suppliers, which we bought in June 1982.

They were, in some respects, the "Distillers" of the grocery trade, a very large company that had grown by amalgamations, but whose market share had been sliding downhill for years. People expressed doubt whether Allied's business could be improved.

Profits last year were 240% of profits three years ago. Our share price has more than doubled in the last 18 months.

QUESTION *But Distillers' stock market value is 2½ times Argyll's. Aren't you biting off more than you can chew?*

GULLIVER No. Allied Suppliers was also 2½ times our size when we bought them. Yet we started to produce improved results almost straight away.

Nearly all Argyll Foods management are from Allied Suppliers. We provide the strategy and direction; they run the business. In the same way, we will identify the existing skills in Distillers, and give their management the leadership they require.

QUESTION *Your reputation has been made in the fast-moving retail trade. How does this qualify you to nurture famous whisky brands?*

GULLIVER Our prime skills are in marketing and in general management. These skills can both be applied to diverse businesses. Our record proves this. Our senior executives have backgrounds in companies like Unilever, Procter & Gamble, Mars, and Beecham: some of the most successful marketing companies in the world. We understand long-term business building and world brand marketing. It is this kind of marketing skill that we will bring to Distillers.

But more importantly, we will bring the strategy and direction required to build Distillers into an international drinks business with a much broader base.

QUESTION *You claim to be able to revitalise Distillers. But how successful is your own Argyll drinks business?*

GULLIVER How do you measure success? We've taken our drinks business from £100,000 profit in 1980 to over £10 million profit last year. Return on shareholders' funds has increased from 3% to 34%.

Last year, Distillers Company (Home Trade) showed £0.5 million profit on their sales of £121 million. We made £1.3 million profit on our home trade sales of just £30 million. If we could do that when our lead product is a regional rum, imagine what we could do with the famous names like Haig, Dewar's and Johnnie Walker.

QUESTION *You've run businesses in Britain. But what do you know about international markets?*

GULLIVER I have had direct experience in North America since 1971, when I became responsible for retail interests there, in addition to being Chairman and Chief Executive of Fine Fare here.

In 1982 we bought Barton Brands, a Chicago based drinks company, and built upon their traditional business of bourbon and Scotch whisky. For instance, we developed Corona Extra, making it the fastest growing imported beer in the United States.

Distillers make a lot of their performance in the United States. But it has all been achieved by local distributors, not by them. It wasn't till 1984 that they decided to buy one of these distributors, paying some $250 million mainly for the right to distribute their own brands.

QUESTION *Argyll has achieved its growth by acquiring companies – How do you answer that?*

GULLIVER We have a reputation for making good acquisitions, but our profits come from making these prosper. For instance, in our food business, since 1982 we've increased profits from £18 million to £44 million – with only £2 million of this resulting from acquisitions.

QUESTION *It is said you not only buy companies – but you also sell them.*

GULLIVER In the past 4 years we've sold peripheral activities for a sum of £17 million. That represents only 2% of the current market value of the Argyll Group.

Looking at Distillers, we don't see why they need seven prestigious offices in London's West End. We may sell some of those. But we certainly won't be selling any of Distillers' valuable brands or businesses. We want to build up Distillers' business – not take it apart.

QUESTION *What makes you so confident you will make money for Distillers' shareholders?*

GULLIVER Because it will be in the interests of our management to achieve this. Argyll directors are committed to our company's success. We own a total of £27 million worth of shares in Argyll and 180 of our senior management participate in a stock option scheme, with an average of 30,000 shares each. We all have a very powerful motivation to succeed – as will Distillers' executives with our management.

QUESTION *Shareholders are being bombarded with circulars. Is there to be any let up?*

GULLIVER The shareholders have my sympathy. But we hope soon to be able to reduce these mailings to two a year – telling Distillers' shareholders about their dividends and earnings.

Argyll. We can revive Distillers' spirits.

UK COMPANY NEWS

London Investment ahead at £2m

ALTHOUGH THE strength of sterling had an adverse impact, the London Investment Trust has lifted its first-half profit from £1.81m to £2m.

The group has interests in commodity clearing and broking and financial services. The directors say they are satisfied with the profit increase taking into account the strength of sterling, as the majority of the group's income continues to arise in dollars.

They are lifting the interim dividend from 0.441p to 0.469p net, and expect to at least maintain the final of 0.721p. In the year ended March 31 1985 the group's pre-tax profit topped £4.2m.

In the first half of the current year, to September 30 1985, turnover advanced from £11.47m to £16.3m.

Shatkin Trading lifted its turnover, maintaining its position as a leading futures clearing and broking house in the Chicago exchange, but its profit margins are lower because of a change in the mix of the business and the intensely competitive nature of the industry over the last year.

However, Shatkin remains well placed to take advantage of changes in the markets as and when they occur.

Rialcor Shatkin Securities Corporation, the US security clearer and broker, has taken longer than anticipated to achieve the development envisaged at the time of the acquisition a year ago, and incurred a small loss.

But current indications are encouraging, the directors say, and in view of the seasonal trend in results because of pricing factors, this company is expected to make a "meaningful contribution" to second half results.

In the UK Bailey Shatkin has returned to profitability and is currently showing indications of maintained growth. The directors say this is most encouraging in view of the declining volumes in most London markets apart from LIFFE.

After tax £793,000 (£799,000) the half year's net profit works through at £1.21m (£1.1m) for earnings of 1.35p (1.13p) per share.

● comment

If the shares of London Investment Trust are still suffering from the loss made two years ago on its UK commodity business, these results—about £¼m worse than expected—have done nothing to help. However most of its troubles are not of the company's own making. With about three-quarters of its profits made in the US, the fall in the dollar has inevitably been damaging. While the Chicago futures business is no longer growing at breakneck speed, its ability to go on increasing profits when others in the market are folding under competitive pressure is encouraging. More worrying is the loss made by the US securities clearing subsidiary bought in 1984, although this could still meet its profits target for the full year following the installation of new systems and a move to new premises. After a complete change in management, and a shift away from soft commodities to financial futures, the London commodity business now seems to be back on the right path. The film finance company was mortally wounded by the phasing out of capital allowances, and LIT is actively looking for fresh ways of diversifying by acquisition. Assuming profits of £4.5m this year the shares are not expensive at 25p on a p/e of 8, and with a yield of 6.8 per cent.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims: ASDA-MFI, Bespak, Hollas, TR City of London Trust.

Finals: Abbey Panels Investments, Ashdown Investment Trust, Hoggett Bowers, M & G Dual Trust, Pencom International, Triton, Wardle Storeys.

FUTURE DATES

Interims:

Atlantic Assets Trust	Jan 16
Haynes Publishing	Jan 31
Independent Investment	Jan 16
MS International	Jan 14
Turnbull Scott	Jan 10
Westpool Investment Trust	Jan 14
Whitworth Electric	Jan 17

Finals:

Bett Brothers	Jan 15
Blue Arrow	Jan 27
Brooke Tool Engineering	Jan 20
Bumdene Investments	Jan 13
Consolidated Tern Inv	Jan 10
Dewhurst and Partner	Jan 9
Gestetner	Jan 16
Guinness	Jan 14
Hill and Smith	Jan 23
Isle of Man Enterprises	Jan 20
National Westminster Bank	Mar 4
Rentokil	Mar 19

R. Horne maintains growth with 32% rise

GROWTH CONTINUED at the Robert Horne Group in the year to the end of September 1985. On turnover up by 17 per cent, taxable profits rose by 32 per cent.

The main contributor was the paper merchanting division, where pre-tax profits showed an improvement of 26.5 per cent.

An increased final payment of 2p (1.5p) is proposed on both the ordinary and "A" shares making a total dividend of 3.25p compared with last year's 2.5p. Earnings per share showed a 30 per cent rise from 12.2p to 15.9p.

Turnover for this USM-quoted company, based in Northampton, rose from £104.87m to £122.97m. Pre-tax profits improved from £6.55m to £8.65m.

The present year has started well in the paper merchanting division and the company is confident that the improvement seen last year will continue this year. The directors warn, however, that the present over supply is likely to continue and with prices weak it will be difficult to earn higher profits.

Despite that they expect that their strength in the market will enable the company to achieve a satisfactory increase.

Mr Kenneth Horne, chairman, believes that there is still considerable potential for internal growth.

Both the other major divisions, Trutite Fasteners and Spectrum Adhesive Coaters, advanced during the year and more is expected in this year.

Since the year end the company has exercised its Trutite share option and now holds 95 per cent of the company, having bought further shares from the minority shareholder.

The directors say that Spectrum established itself as a major supplier of on-roll self-adhesive paper to the label trade with a high proportion of its output being sold through the paper company.

To meet increased demand Spectrum is moving to larger premises and has installed a third coating machine.

A breakdown of the pre-tax profits shows paper merchanting contributed £7.87m, compared with £6.22m last year, Trutite £366,000 (£134,000), Spectrum £282,000 (£148,000), Papico £50,000 (£43,000), other £75,000 (nil).

Gross profit came out at £26.35m (£23.15m). After sales and marketing costs £5.46m (£4.98m), distribution costs £5.26m (£5.32m), administration expenses £6.67m (£6.08m) and other operating income of £292,000 (£260,000), operating profit was £9.25m, compared with £7.03m last time.

The tax charge was £3.64m (£2.79m) and minorities took £181,000 (£123,000). Last time there was an extraordinary debit of £297,000.

● comment

Robert Horne's profits growth is largely attributable to the 20 per cent rise in paper prices in 1984 which gave its first-half figures a substantial boost. As the year progressed the benefits fizzled out and the usual bias in favour of the second half did not materialise. With paper merchanting still at the core of its activities, Robert Horne is inevitably the victim of cyclical shifts in paper prices, and this year the trend appears to be to its disadvantage. There are no signs of an alleviation in oversupply and falling prices are putting pressure on prices and margins. The group's best hope of achieving further progress lies in winning a larger share of a market in which it is already the leader and in the continuing diversification away from the merchanting of printing paper into other products such as board and packaging. Trutite and Spectrum are still small in relation to the mainstream activity but their growth may just take the group over the £9m mark for the current year, at which level the shares, up 8p at 163p, look fairly valued on a prospective p/e ratio of nearly 9.

Yearlings up ⅜%

The interest rate for this week's issue of local authority bonds is 12 per cent, up ⅜ a percentage point from last week, and compares with 10⅝ per cent a year ago. The bonds are issued at par and are redeemable on January 14 1987.

A full list of issues will be published in tomorrow's edition.

Mid-Sussex Water offer

MID-SUSSEX Water Company has announced the offer for sale by tender of £4m of 8½ per cent redeemable preference stock 1996.

The issue, underwritten by brokers Dennis Murphy, Campbell & Co, offers a conventional gross yield of 11.78 at the minimum tender price of £100. The fully grossed up franked investment income yield is 12.71.

Mid-Sussex Water Company was established in 1881 and supplies an area of 402 square miles under an arrangement with the Southern Water Authority. At March 31 1985, it had net asests of £20.4m.

The proceeds of the issue will be used to redeem £3.5m of 8 per cent redeemable preference stock 1986

The offer closes at 11am on January 15. A deposit of £10 per £100 must accompany each tender and the balance is to be paid not later than mid-day on February 20.

● comment

The three water company preference stock issues in 1985 were all comfortably oversubscribed and went into firm hands and the Mid-Sussex Water Company also seems likely to prove popular. Its yield of 11.78 per cent compares with a redemption yield of 11.23 per cent on Exchequer 10½ per cent 1995, while the fully grossed up franked investment income yield of 12.71 per cent will appeal to corporate investors and institutions. Although gilt prices have moved against the issue in the last day or so there is a demand for this type of stock from the specialist investor, and depending on conditions in the gilt market early next week it might be expected to attract tenders pitched at ½ to 1 point above par.

Interest income lifts Barr

A. G. Barr, the Glasgow-based soft drink manufacturer, has managed to offset the effects of a poor summer and competition through a sharp increase in net interest receivable.

This increase, from £269,000 to £593,000, counteracted a near one-point fall in trading margins and resulted in a slightly higher £3.2m taxable profit, against £3.17m, for the year to October 26 1985.

Mr Robin Barr, the chairman and managing director, says that trading conditions were very tight. Barr, which makes Tizer and Irn-Bru, had sales of £35.2m (£34.72m) and trading profits of £2.61m (£2.9m).

He says interest income reflected higher rates received on larger deposits partly because the major capital expenditure was near the year-end. Investment in the coming year will be lower at £3m and will be mainly used to extend warehousing facilities at Atherton and Glasgow.

A higher final dividend of 6.7p (5.75p) is proposed, lifting the total from 7.5p to 8.45p. Earnings per share were up at 35.56p (31.19p) after lower tax of £954,000 (£1.2m)—there was a £332,000 extraordinary credit this time.

Mr Barr says that sales in the current year to the end of December are modestly ahead and investment in Irn-Bru in England will continue because of its growing popularity. He adds that investment in the latest PET blowing equipment at the Glasgow factory will enable the company to be more competitive in this growing sector.

An employee profit-linked share plan will be put to the forthcoming annual meeting.

Blacks Leisure expects return to profit

Blacks Leisure Group, the troubled camping goods and leisure wear retailer, forecasts a return to profit in 1986.

It suffered a pre-tax loss of £1.25m for the six months to August 31 1985, compared with £2.53m for the six months to October 31 1984. Turnover fell from £7.44m to £5.1m and the loss per 10p share declined from 23.5p to 7.1p.

Since October 1984, when Greenfield Leisure acquired Blacks Camping and Leisure, the company has suffered from heavy losses made by its Greenfields shops although Blacks shops remained profitable. The group has closed many Greenfields shops while opening new Blacks shops.

It reported an extraordinary debt of £1.53m (1984 £0.77m credit). Extraordinary items related to the cost of closing Greenfields shops and their trading losses in the half year. Full provision is made in the accounts for the cost of disposing of the remaining shops.

The board said it was confident the worst of the problems were now behind the company

Gilbert House breaks even at midway

The absence of profits from dealing property activities has left Gilbert House Investments at near break-even for the six months ended September 28 1985.

Gross rents receivable for the period, increased from £229,000 to £242,000. However, a nil contribution from dealing profits and the deduction of property expenses of £8,000 (£5,000), administration expenses of £59,000 (£56,000) and net interest charges of £176,000 (£134,000) left pre-tax profits at just £1,000.

This compares with last time's £121,000 which included dealing profits of £87,000. The second half has seen some sales of dealing properties, the benefits of which will be reflected in the USM group's full accounts.

LAPORTE INDUSTRIES, the chemicals group, has made its second acquisition of an American building products company. It has paid $3.2m (£2.2m) cash for Syracuse Adhesives of Cleveland, Ohio.

FT COMMERCIAL LAW REPORTS

Digest of Michaelmas Term cases

FROM NOVEMBER 6 TO NOVEMBER 27, 1985

McGregor Navine (UK) Ltd v British Railways Board and Others (FT, November 6).

In November 1978, McGregor contracted with the Railways Board to construct a ramp at Parkeston Quay. Performance of the contract was much delayed. In the meantime the board's rights and liabilities in the shipping division, including its rights and liabilities as employer under the McGregor contract, were transferred to a wholly-owned subsidiary. McGregor was not informed of the transfer at the time, nor at the time of a subsequent agreement, but learnt of it in arbitration proceedings in August 1984. In refusing McGregor's claim that the board was estopped from denying it was the proper party to the arbitration, Mr Justice Bingham said that McGregor had failed to show that the board's silence had any effect, or any potential effect, on its conduct or that it had been put in a worse position by substitution of a new employer.

★

Gunning v Mirror Group Newspapers (FT, November 8)

When Mr Stark retired from the distributorship of two Sunday papers, he asked the Mirror Group to renew the contract in favour of his daughter, Mrs Gunning, who had been his main assistant. Mrs Gunning successfully contended before an Employment Appeal Tribunal that, under the Sex Discrimination Act, she had been wrongly excluded from "a contract personally to execute any work or labour." In allowing the Mirror Group's appeal the Court of Appeal held the contract's dominant purpose was not for personal performance but for the efficient distribution of its newspapers.

★

MacKinnon v Donaldson, Lufkin and Jenrette Securities Corporation and Others (FT, November 12).

Under Section 7 of the Bankers' Books Evidence Act 1879, Mr MacKinnon obtained an order on Citibank's London office that it produce documents and records relating to an account in New York into which, Mr MacKinnon alleged, the three defendants had channelled his funds. Citibank was not a party to the action. In setting aside the order, Mr Justice Hoffmann said that although Citibank was within the jurisdiction and could be served with process, that did not mean there was no territorial limit to the matters upon which an English court might apply its own rules. The need to exercise the court's jurisdiction with due regard to the sovereignty of others was particularly important in the case of banks.

★

Coldunell Ltd v Gallon and Another (FT, November 13).

In order to borrow money from moneylenders, Mr William Gallon obtained a legal charge over his parents' bungalow, which was their sole capital asset. At first instance the judge found that the son had exercised undue influence over his parents and set aside the charge as against the moneylenders. In allowing the moneylenders' appeal, the Court of Appeal held that there was no evidence to suggest that the son had acted as their agent and they could not be penalised for acts done without their knowledge or authority.

★

Cutsworth and Others v Mansfield Inns Ltd (FT, November 15).

After Mansfield Breweries acquired the ownership of the 57 licensed public houses, it wrote to the plaintiffs that their firm was no longer to be regarded as suppliers of amusement equipment to its tied houses. In a successful application for continuance of an injunction which the plaintiffs obtained pending trial of the proceedings, Sir Neil Lawson said that while beer tie agreements were the subject of block exemptions to Article 85 of the EEC Treaty, the exemption did not apply where the supplier curtailed the publican's choice of service or goods. There was a serious triable question, therefore, as to whether Mansfield Breweries were not in breach of EEC law.

★

In re Distributors and Warehousing Ltd (FT, November 19).

When distributors and Warehousing entered into a lease belonging to Townson Developments Ltd, its rent was guaranteed by two other companies. Townson subsequently conveyed the freehold reversion to CIS but the guarantee was omitted by oversight. Later a deed of variation was entered into between CIS, Distributors and the guarantors. The liquidator of Distributors sought to disclaim the lease. Mr Justice Walton allowed disclaimer because the lease had no premium value and, as the benefit of the guarantees was not conveyed expressly or by implication, there were no guarantors whose rights would be affected.

★

Boldmark Ltd v Cohen and Another (FT, November 20)

Under clause 4(ii) of their lease, the tenants covenanted to pay the lessors' "yearly costs, expenses and outgoings," covering *inter alia*, 2.6 per cent of any increase if service charges rose above £3,000. The landlords sought to recover interest on money they had borrowed in discharging their functions in "the general administration and management of the block," pending reimbursement under clause 4. In allowing the tenants' appeal, the Court of Appeal held that though there was no reason in principle why a lease should not provide for a landlord to be compensated for reasonable interest, the lessors had failed to show, under the terms of the lease in question, that the tenants had contracted to pay the interest claimed.

★

Re Potter Oils Ltd (FT, November 22)

Lloyds Bowmaker Ltd, which had lent money to Potter Oils in return for a fixed charge over its plant, appointed a receiver to protect its interests on Potter's winding-up. The charge provided that the receiver was entitled to reasonable remuneration plus disbursements. The liquidator challenged the sums the receiver claimed on the grounds that his appointment had caused unnecessary duplication and expense. Dismissing the summons, Mr Justice Hoffmann said that Lloyds Bowmaker had been entitled to exercise its rights under the contract and, while the court had power to fix remuneration of the receiver under section 371 of the Companies Act 1948, its scope did not extend to disbursements. The power moreover, should be exercised only where remuneration was clearly excessive.

★

The Belgrano (FT, November 26).

In an arbitration dispute over a contract for sale of soyabean meal, the Gafta Board of Appeal held that it was the duty of the seller in an fob contract to have the goods ready for delivery to the buyer's vessel on call within the contractual delivery period. In allowing the sellers' appeal, the Court of Appeal held that, where a contract specified a continuous shipment period at "buyer's call," the buyers could not hold the sellers in default where the sellers had been ready to complete loading at the applicable contractual rate before expiry of the shipment period.

★

TCB Ltd v Gray (FT, November 27).

Mr Gray borrowed £5m from TCB, a secondary bank, for transactions involving his two companies, Graylaw and Link, in return for which he gave an unlimited personal guarantee. So that his solicitor could complete the matter in his absence, Mr Gray then signed a power of attorney which stated that it was "signed sealed and delivered." No seal whatsoever had been affixed. In upholding TCB's claim for payment under the guarantee, Sir Nicolas Browne-Wilkinson, the vice-chancellor said that Mr Gray was estopped from denying its validity because the bank had advanced the money in reliance on the documents executed under the power of attorney.

This digest will be concluded on Friday.

By Aviva Golden

APPOINTMENTS

Planning director for Plessey Co.

THE PLESSEY COMPANY has appointed Mr John Saunders director of strategic planning, corporate staff. For the past two years he has been the planning director of Plessey Telecommunications & Office Systems, where he has worked closely with the executive chairman, Mr Frank Chorley, to develop and extend the company's influence in both European and world telecommunications. Mr Saunders succeeds Dr Keith Warren, who has become managing director of research in the newly formed Plessey Research & Technology division.

★

GRANDMET INTERNATIONAL SERVICES (GIS) has made the following changes: Mr David King has been appointed general manager, Europe and Africa. Mr John Champion, has been appointed the regional director for Alaska. Two new Hong Kong based directors have been appointed in the Far East: Mr Ed Dilworth is now financial director for the GF International Services group, a joint venture between GIS and Fung Ping Fan & Co and Mr Roger Hartley is managing director for GF International Services.

★

Mr F. W. Soutar has been appointed sales and marketing director of THE BRITISH PEPPER AND SPICE COMPANY. He was formally national account manager, retail/catering division.

★

Mr Marshall Leopold has been appointed non-executive director of WORDPLEX INFORMATION SYSTEMS. Mr Leopold, senior partner of Dennis Berry and Co, has been the legal adviser to Wordplex since 1977.

★

R.H.M. OUTHWAITE (UNDERWRITING AGENCIES) has made the following appointments: Mr N. J. Caton, a deputy underwriter for Lloyd's Syndicate 317 which is managed by the company, is appointed a director; Mr W. E. Bloxham, who joined the company in August from the Corporation of Lloyd's is appointed finance director.

★

The ROYAL LONDON MUTUAL INSURANCE SOCIETY has appointed Mr D. W. H. Griffiths assistant general manager, general branch.

★

Mr Trevor Dawson has been appointed managing director of TUCKER FASTENERS. Formerly director of finance and administration with the Emhart Fastener Group, of which Tucker Fasteners is a member, he succeeds Mr Mike Prosser, who has retired.

★

MARS ELECTRONICS has appointed Mr David Wilson service and finance director. He joins Mars Electronics from Hewlett Packard where he was director of corporate development.

★

Mr Hugh Meller has been appointed managing director of FREIGHT COMPUTER SERVICES, a subsidiary of the National Freight Consortium. He was group finance director of the special services group.

★

Mr H. V. White-Smith has been elected chairman of THE DEVELOPMENT TRUST FOR THE YOUNG DISABLED in succession to Mr J. M. van Zwanenberg who continues as a trustee. Mr White-Smith is a director of Willis, Faber and Dumas. Air Commodore D. F. Rixson is now vice-chairman of the Trust and Sir Neville Leigh, formerly Clerk to the Privy Council, has become a trustee. Captain A. D. Hutton has been appointed secretary to the Trust.

★

BRITISH CALEDONIAN has appointed Mr Brian Davies as engineering director. He joins from British Airways where he was chief engineer, aircraft maintenance, Heathrow. Mr Davies will initially work in parallel with the current engineering director, Mr Arnold Sheead. He will assume full responsibility for the engineering division when Mr Sheead retires in June.

★

Rugby Cement, UK cement division of THE RUGBY PORTLAND CEMENT, has appointed Mr Patrick Jackson as chief executive from February 1. He is managing director of the south eastern region of the Amey Roadstone Corporation.

★

Mr P. Merchant and Mr R. M. Nelson have joined the board of INVESTMENT RESEARCH OF CAMBRIDGE upon the acquisition of a share stake by NZI Investment Services, a division of NZI Corporation of New Zealand.

★

Mr G. C. Gibbins has been appointed managing director of JEBSENS MARITIME INVESTMENTS, Jebsens (UK), and Jebsens Shipping. Mr I. McEwen has been appointed managing director of Jebsens Ship Management and a director of Jebsens Maritime Investments, Jebsens (UK) and Jebsens Shipping. Mr W. Hansen has been appointed fleet manager of the Jebsen UK companies.

★

Mr Clive Dellino has been appointed as deputy managing director of TEMPCO ENGINEERING SERVICES, Reading. He comes from Howden Refrigeration at Reading. Another Tempco Union appointment, at Bedford, is Mr Tony Sivills as systems development director. He comes from Ross Foods, where he was project development co-ordinator.

★

MORCEAU HOLDINGS, Pinxton, Notts, has made the following appointments to the boards of operating companies: Morceau, Pinxton—Mr C. J. Aspinall as sales and marketing director, Mr B. Atkinson, contracts director, Mr R. F. Bairstow, finance director; and Mr R. I. Smith, quantity surveying director. Morceau Aberdeen—Mr R. J. Donaldson, director and general manager. Morceau Hong Kong—Mr C. K. Wong King Kwong, director and general manager.

★

COUNTER PRODUCTS MARKETING has appointed Mr John Speakman to the main board as director of the group's sales promotion division. He was marketing director at Philip Morris. The appointment is from January 13.

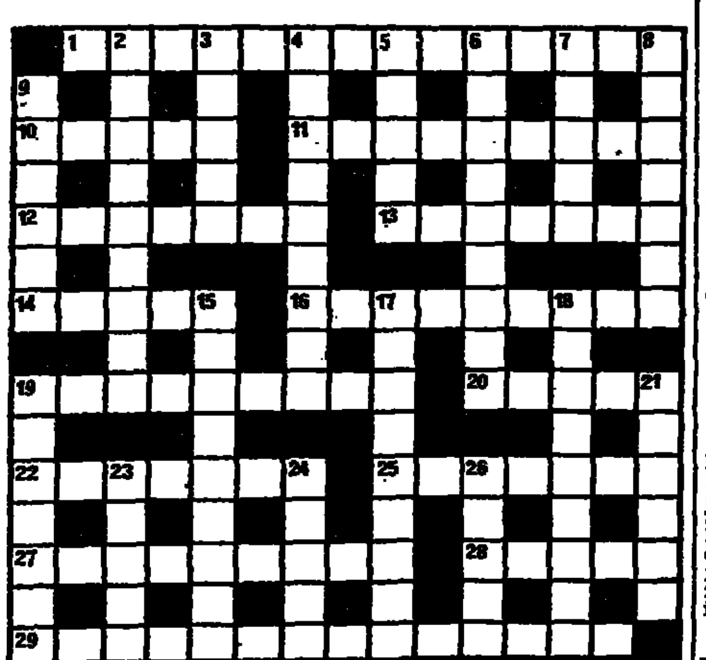
★

EWBANK PREECE, Brighton, has appointed two directors, Mr Geoffrey Richards, from the Shell Group and Mr Alan Plumpton, outgoing deputy chairman of Ewbank Preece, which he will join on February 1.

★

Mr Isadore Williams has retired as joint managing director of COWAN DE GROOT from his directorships in subsidiary companies. He remains on the board as a non-executive director and on a part-time basis as a director of Cowan de Groot (Toys & Giftware).

F.T. CROSSWORD PUZZLE No. 5,916



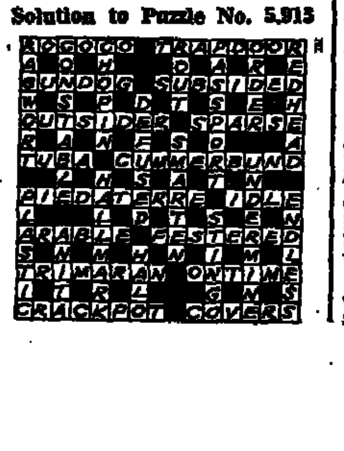
ACROSS

1 Mounting anxiety about a firm that's expanding (7, 7)
10 Be put back to bed, having gone into a decline (5)
11 Tearful Scottish scenes we get on Christmas cards (9)
12 Conspicuous foreigner in the street (7)
13 Show of affection for which one gets no credit (7)
14 Meaning to go with the tide (5)
16 Broke nine-volts circuit (9)
19 100-foot creeper unwanted in the garden (9)
20 Off-peak call (5)
22 Shy essayist gets a plant (7)
25 Pair out on the river, having a drink (7)
27 Many machines involve it (9)
28 German currency between banks? (5)
29 One is really sorry to make it (7, 7)

DOWN

2 Rising, like a defiant beast (9)
3 Used by a golfer in a jam? (5)
4 Balls—and bats—can be part of it (5, 4)
5 They man ships for a voyage, we hear (5)
6 It's pronounced without conviction (3, 6)
7 He goes out with Irene (5)
8 Beginning the Northern climb (7)
9 Well acquainted with the metric system (6)
15 Test match? Yes and no (5, 4)
17 It simply outlines the position (6-3)
18 Grenadine can be so sweetly attractive (9)
19 Supporting features of newspapers (7)
21 Toiler disposed to belie his nature (6)
23 The ghost of Shakespeare, some say (5)
24 Quick to catch five in a falsehood (5)
26 Moslem leader said to be virtuous (5)

Solution to Puzzle No. 5,915



FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

CONTINUED OVERLEAF

AUTHORISED UNIT TRUSTS & INSURANCES

INSURANCES

INSURANCE, OVERSEAS & MONEY FUNDS

OFFSHORE AND OVERSEAS

Money Market Trust Funds

	Gross	Net	Gr Equiv CAR	Int Cr
The Charities Deposit Fund 77 London Wall, London EC2N 1DB 01-588 1815				
Deposit	11.20			3-Mth
The Money Market Trust 63 Qn Victoria St, EC4N 4ST. 01-236 0952				
Call Fund	10.49	7.84	11.43	6mth
7-day Fund	11.02	8.24	12.03	6mth
Oppenheimer Money Management Ltd 66 Cannon St, EC4N 6AE. 01-236 1425				
Call Fund	10.47	7.83	11.40	6-Mth
7-day Fund	11.15	8.33	12.14	6-Mth
Dollar	6.87			6-Mth

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int Cr
Adam & Co. plc 22 Charlotte Sq. Edinburgh, EH2 4DF 031-225 8484				
Full Service Cur Acc.	11.00	8.00	11.78	Qtr
Aitken Hume 30 City Road, EC1Y 2AY. 01-638 6070				
Treasury Acc	11.00	8.22	12.11	Qtr
Mth. Int. Chq.	11.000	8.22	12.18	Mth
Allied Arab Bank Ltd 97-101 Cannon St, London, EC4N 5AD 01-283 9111				
HIBCA	11.50	8.60	12.78	mth
Bank of Scotland 38 Threadneedle St, EC2P 2EH. 01-628 8060				
Money Mkt Cheque Acc.	11.00	8.22	12.20	Mth
Barclays Prime Account PO Box 125, Northampton 0604 252891				
High Int. Cheque	11.00	8.25	12.3	Qtr
Britannia Investment Services Ltd. 74-78 Finsbury Pavement, EC2A 1JD. 01-588 2777				

29-33 Princess Victoria St, Bristol. 0272 732241

	Gross	Net	Gr Equiv CAR	Int Cr
Demand Acc	11.15	8.33	12.28	Qtr
Money Acc.	11.03	8.25	12.13	Qtr
J. Henry Schroder Wagg & Co Ltd Enterprise House, Portsmouth 0705 827733				
Special Acc	10.75	8.04	11.91	Mth
Over £10,000	11.0	8.23	12.20	Mth
Western Trust & Savings Limited The Moneycentre, Plymouth PL1 5SE 0752 24141				
High Int Chq Acc	11.65	8.69	12.83	Qtr

NOTES—Gross: rate to those exempt from composite rate of tax. Net: actual rate after deduction of CRT. Gr Equiv CAR: Gross equivalent to basic rate taxpayers—compounded annual rate. Int Cr: frequency interest credited.

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. § Guernsey gross. # Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ◆ Yield column shows annualised rates of NAV increase. xd ex dividend.

OPTIONS

3-month call rates

Industrials	p		
Allied-Lyons	28	Marks & Spencer	13
BAT	26	Midland Bk.	35
BOC Grp	27	NEI	10
BSR	8	Nat West Bk	55
BTR	33	P & O Dfd	35
Babcock	13	Plessey	14
Barclays	33	Polly Peck	21
Beecham	30	Racal Elect	15
Blue Circle	50	RHM	12
Boots	18	Rank Org Ord	35
Bowaters	38	Reed Intnl	60
Brit Aerospace	32	Sears	11
Brit. Telecom	17	TI	35
Brown (J.)	3½	Tesco	24
Burton Ord	45	Thorn EMI	34
Cadburys	13	Trust Houses	12
Charter Cons	18	Turner Newall	9½
Comm Union	23	Unilever	90
Courtaulds	13	Vickers	35
Distillers	36	**Property**	
FNFC	12	Brit Land	14
Gen Accident	55	Land Secs.	26
Gen Electric	14	MEPC	26
Glaxo	100	Peachey	24
Grand Met	30	Samuel Props	15
GUS 'A'	70	**Oils**	
Guardian	60	Brist. Oil & Min	3½
GKN	20	Brit Petroleum	45
Hanson Tst.	18	Burmah Oil	27
Hawker Sidd	36	Charterhall	4
ICI	42	Premier	5
"Imps"	16	Shell	55
Jaguar	27	Tricentrol	18
Ladbroke	27	Ultramar	18
Legal & Gen	60	**Mines**	
Lex Service	24	Cons Gold	40
Lloyds Bank	35	Lonrho	12
Lucas Inds	38	Rio T Zinc	50

A selection of Options traded is given on the London Stock Exchange Report Page.

Coffee price upsurge continues as Brazil confirms drought damage

BY ANDREW GOWERS IN LONDON AND ANN CHARTERS IN SAO PAULO

COFFEE FUTURES markets rose to fresh eight-and-a-half year highs yesterday in the wake of Brazil's official forecast that its 1986 crop will total 16.7m bags.

The estimate implies a 45 per cent fall from last year's bumper harvest, but traders in Brazil still maintain that the crop will yield no more than 13m to 14m bags.

An anticipated shortage of top-quality coffees in the latter half of this year as a result of the recent Brazilian drought —the worst to hit the country in 40 years—has been behind a sharp rise in the London and New York markets over the past few weeks.

Yesterday in New York, coffee futures rose by their full 6-cent limit at the opening, with the March contract reaching 276 cents per pound. In London, the robusta futures market traded extremely actively to close up £151.50 on the day at £3,007.50 per tonne, although that was at the lower end of the day's trading range.

The crop forecast from the Brazilian Coffee Institute (IBC) served to confirm traders' expectations of severe drought damage and a resulting world shortfall of some categories of coffee.

The markets were also supported by a sharp rise in Brazil's export prices for January and February, likewise announced on Monday night.

Type six coffees—the better qualities — shipped through Santos, now carry a minimum price of 281 cents per pound, nearly double their level of 142 cents in December, with an export tax of 15 per cent. This means Brazil's official export price is closer to the world market level, but still well below domestic prices.

Analysts believe the IBC forecast has done nothing to quell the recent speculation in the markets, which is expected to lead to the complete suspension of export controls under the International Coffee Agreement in mid-February. The Institute is to produce another forecast in March.

The potential problem is focused on the high-quality arabica coffees, of which Brazil produces significant quantities. The expected shortage in this sector has forced consumers to consider buying more coffee from the smaller producers of the so-called "other milds"—in Central America, for example.

For the moment, however, supplies of both arabicas and lower-quality robusta coffee remain fairly plentiful, and are likely to increase in coming months with the arrival of stocks released by the IBC this week and of more supplies from the Ivory Coast.

Some Brazilian coffee trees may take two years to recover from the drought. But it is claimed in Rio de Janeiro that the planting of 115m trees this season should eventually offset the effects of the drought.

Soviet Union in Nicaraguan sugar deal

By Tim Coone in Managua

THE SOVIET Union and Cuba are to buy Nicaraguan sugar at preferential prices in 1986 according to the country's Agriculture Minister, Sr Jaime Wheelock. The new deals will be worth some $10m and represent 30 per cent of Nicaragua's total sugar exports.

It produces in the region of 225,000 tonnes of sugar per year, of which 40 per cent goes for export. The US was formerly the major market but Algeria has become the biggest buyer since the US slashed Nicaragua's import quota in 1983 and imposed a total trade embargo in May last year.

According to Mr Wheelock, Nicaragua is to receive 17 cents a pound on the 27,000 tonnes which are to be sold to Cuba and the Soviet Union this year, almost three times higher than current market prices.

The deals represent an important step in Nicaragua's growing trade relations with the Comecon countries. These are now Nicaragua's main suppliers of machinery and raw materials and, following the imposition of the US trade boycott, the Nicaraguan Government decided to link all future capital investment to guaranteed markets both for imports of machinery and raw materials and for its exports. The new sugar deals can be expected to presage further preferential trade deals by Nicaragua with the Comecon nations especially for the country's important coffee and cotton crops.

Hopes of resolving tin crisis raised

BY STEFAN WAGSTYL

THE PROSPECTS for a negotiated settlement to the crisis which has crippled the international tin market since October advanced yesterday at a meeting of the heads of government delegations to the International Tin Council.

The delegates meeting informally suggested that the latest rescue proposal, put forward jointly by Mr Peter Graham, deputy vice-chairman of Standard Chartered Bank, and Mr Ralph Kestenbaum, joint managing director of broker Gerald Metals, was the best scheme so far proposed.

However, it is clear that the 22 member governments are still some way from agreeing to settle with the banks and London Metal Exchange brokers who are owed hundreds of millions of pounds by the ITC, which ran out of money trying to support tin prices.

After meeting delegation heads yesterday, Mr Graham said that the tin council members had not been asked for a response yesterday and none had been given. But he and Mr Kestenbaum want an answer next Tuesday when the ITC meets again in full session.

ITC delegates say this sets a very tight deadline on their governments. Tin - producing countries have said they favour a negotiated settlement. But major tin-consuming nations—notably West Germany, France and the Netherlands—have so far refused to negotiate. EEC countries will meet tomorrow in Brussels to discuss a common approach to the Graham-Kestenbaum plan.

The UK has all along been pressing for a settlement.

WEEKLY METALS

All prices as supplied by Metal Bulletin.

ANTIMONY: European free market, 99.6 per cent, $ per tonne, in warehouse, 2,740-2,800.

BISMUTH: European free market, min 99.99 per cent, $ per lb, tonne lots in warehouse, 3.40-3.70.

CADMIUM: European free market, min 99.95 per cent, $ per lb, in warehouse, ingots, 0.73-0.77, sticks, 0.78-0.82.

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 10.70-10.90.

MERCURY: European free market, min. 99.99 per cent, $ per flask, in warehouse, 248-258.

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.58-2.68.

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 6.85-7.05.

TUNGSTEN ORE: European free market, standard min 65 per cent, $ per tonne unit WO, cif, 54-62.

VANADIUM: European free market, min 98 per cent V 0, other sources, $ per lb V 0, cif, 2.20-2.30.

URANIUM: Nuexco exchange value, $ per lb U O, 16.75.

Norwegian catch hit by over-fishing

By Fay Gjester in Oslo

NORWAY'S FISH catch last year totalled 2,188,000 tonnes—400,000 tonnes down on 1984 and the lowest volume since 1984. Its value rose, however, to Nkr 4,275m (£412m) from Nkr 4,252m in 1984.

The main reason for the volume decline was the steep fall in landings of capelin, a small fish used mainly for oil and meal. Over-fishing in the important Barents Sea area has hit the capelin population hard, and the Norwegian catch of this variety fell last year to 648,300 tonnes, from 944,000 tonnes in 1984 and 1,492,000 tonnes in 1983. The value of the capelin catch shrank to Nkr 451.2m from Nkr 639.4m in 1984.

Landings of cod were also down on a year earlier, but the value of the cod catch rose by Nkr 1bn to a total of Nkr 2.2bn.

The catch of one important variety—herring—rose further in 1985, however, by around 80,000 tonnes to 230,000 tonnes. Norwegian herring stocks, which were decimated by overfishing in the 1960s, now appear to be recovering.

Meanwhile, the fish meal industry in northern Norway is facing a raw materials crisis as a result of the plummeting capelin catch. An industry spokesman said that four factories between central and northern Norway would shortly have to be shut down entirely.

The raw materials crisis had come at a particularly inopportune time for the oil and meal manufacturers, who have been enjoying rising demand for their products

Wildlife fund attacks rhino horn trade

By Robert King in Taipei

THE WORLD WILDLIFE Fund, in an effort to preserve the world rhinoceros population, has launched a campaign to persuade Asian countries to stop importing rhino horn, a popular component in many oriental medicines.

Mr Esmond Martin, a WWF project director based in Kenya, said in Taipei recently that he will shortly visit four Asian countries to persuade authorities there to ban the commodity. Taiwan, already bans such trade, but the four countries coming under criticism are Singapore, South Korea, Macao and Brunei.

Mr Martin said the world's rhino population has declined from more than 70,000 in 1970 to fewer than 14,000, largely because of demand for the horn in North Yemen, where it is made into dagger handles, and in Asia, where along with other parts of the animal, it is used in traditional medicines.

Escalating prices for the horn, now retailing at roughly $9,000 a kilo, have prompted increased poaching, especially in some areas of Africa where extreme poverty combines with a breakdown in law enforcement. Among the Black rhino species prevalent there numbers have fallen from 65,000 15 years ago to only 7,000. In some areas, Mr Martin said, rhinos have been completely wiped out.

Rice surplus problem for Indonesia

BY CHRIS SHERWELL AND KIERAN COOKE IN JAKARTA

PRESIDENT SUHARTO of Indonesia, announcing a record rice output of 26.3m tonnes for 1985, yesterday unveiled a new method of financing the country's growing food stocks.

Presenting an austerity budget to Parliament for the fiscal year beginning in April, he said the Government was setting aside Rp 417bn ($372m) to finance 1m tonnes of surplus rice and to pay bank interest on loans funding another 1m tonnes.

Hitherto surplus stocks have been managed by the National Foodstuffs Logistics Board, known as Bulog, through bank credits. But with stocks now standing at 3.5m tonnes the burden is plainly becoming too great.

The change comes in the wake of Indonesia's breakthrough in 1984 to rice self-sufficiency for its 165m people. The milestone — production 15 years ago was only 1m tonnes — was publicly acknowledged by the UN Food and Agriculture Oragnisation in November, when Mr Suharto addressed a special conference in Rome.

Traditionally Bulog has imported or bought in rice stocks in order to keep consumer prices stable and guarantee a fair price to the country's estimated 30m paddy farmers.

But recently the agency has begun facing difficulty coping with the growing surpluses. Its borrowings from state banks last year amounted to Rp 1,900bn ($1.7bn) in subsidised 6-12 per cent loans, and there were even warnings of impending bankruptcy without direct government intervention.

Bulog will continue shouldering responsibility, however, for 1.5m tonnes of surplus rice, which it needs for its own market operations and to supply members of the civil service and armed forces

Despite the fact that supply is beginning to outstrip demand, Mr Suharto stood firm yesterday on the question of continuing fertiliser subsidies for farmers. While admitting that these were large—they are to rise another 20 per cent in the coming year—he said the Government wanted to keep fertiliser prices low to increase production of all crops and raise farmers' incomes.

The Government is believed to want to shift its priorities towards support for other agricultural activities such as maize and soyabeans, vegetables and livestock.

Mr Suharto has always insisted that Indonesia should try to hold a substantial rice stock in order to guard against the kind of famine which hit the country in the 1960s and early 1970s. Only six years ago, Indonesia was the world's largest rice importer.

US subsidies threaten Thai exports

BY BOONSONG K'THANA IN BANGKOK

THAILAND, the world's largest rice exporter, will lose up to 40 per cent of its rice export markets to the US because of the recently-passed US Farm Act, according to the country's Board of Trade.

Dr Ajva Taulananda, the chairman of the Bot's subcommittee on agriculture, said Thailand can expect to lose sales totalling about 1m tonnes a year to the US in Africa and the Middle East countries, its traditional markets, as a result of the controversial legislation.

The US subsidies included in the Act will cause the price of American rice to decline by roughly half from the existing level, making it cheaper than Thai rice.

Rice is Thailand's largest foreign exchange earner and the export volume to be affected by the Farm Act will deprive the country of about 5.8bn baht ($219m) in annual revenue. Last year Thailand exported about 4m tonnes of rice.

Diamond market stronger in 1985

BY KENNETH MARSTON, MINING EDITOR

WORLD SALES of rough (uncut) diamonds improved further in the second half of last year to make a 1985 total of $1.82bn (£1.26bn). Diamonds are traded in dollars, and this is the best dollar total since the record $2.72bn of 1980 and 13 per cent up on that of 1984.

The figures relate to sales of rough gem and industrial diamonds handled by the Central Selling Organisation (CSO). This regulates the marketing of over 80 per cent of world mine output on behalf of South Africa's De Beers and other producers.

Because of the sharp decline in the value of the South African currency last year's sales in rand terms advanced by 75 per cent to an inflated R4.03bn, the highest figure on record. During the second half of 1985 sales amounted to R2.35bn, or 109 per cent up on the same period of 1984 when the market weakened after a good first half.

The decline in demand during the second half of 1984 reflected the strength of the US dollar, which increased prices in other currencies; curbs on bank lending; and the adverse effects on confidence at the cutting centres of a sharp increase in offerings of good quality Russian cut and polished stones at considerable price discounts.

Last year the CSO moved to correct the situation by restricting its sales of rough diamonds to the "cheaper" categories which the cutting industry could more readily sell. At the same time the Russian offerings returned to a more acceptable level and the value of the dollar eased.

Mr Andrew Lamont of De Beers said yesterday: "The market is now in a much healthier state than at this time last year." He confirmed that demand for the better quality and more expensive grades of rough gem diamonds is improving in line with the trend in sales of polished stones.

Hopes are that CSO sales will improve further this year but this depends on continued strength in retail diamond jewellery sales and "a period of further consolidation is needed to provide a stronger base for the future."

Meanwhile, the burden of heavy stocks of diamonds at the cutting centres continues to ease. Since 1981 stocks held by the cutters in Israel are understood to have fallen from $1.3bn to around $200m. This raises the hope that the increase has been checked in the big unsold stocks of diamonds carried by De Beers, which amounted to $1.95bn at the end of 1984.

De Beers shares were up 15p to 373p yesterday.

DIAMOND SALES

	Six months to June Rm	Dec Rm	Year's Total Rm
1985	1,676	2,351.0	4,027.0
1984	1,180	1,128.0	2,308.0
1983	960.0	811.0	1,771.0
1982	635.5	724.1	1,359.6
1981	747.5	501.0	1,249.4
1980	1,267.2	874.4	2,141.6
1979	1,085.4	1,106.2	2,191.5
1978	1,063.5	1,155.4	1,218.9
1977	943.4	859.3	1,802.7
1976	681.9	670.0	1,351.9
1975	355.1	438.4	793.5
1974	625.5	313.8	849.4

LONDON MARKETS

THE COCOA futures remained in the shadow of the spiralling coffee market yesterday but most positions managed modest gains on the day to pare Monday's sharp retreat from two-month highs. The exception was the prompt March position which fell £13.50 to £1,727 a tonne under pressure from increased availability of supplies for nearby delivery. All positions had fallen back following an early rise which dealers attributed to the development of an "oversold" situation on Monday. Sizable gains on the sugar futures market were explained as a continuation of a technical rally following sharp falls over the Christmas period. The bullish tone was aided by talk of Indian buying and by news that North Yemen will be seeking white sugar for January delivery at a tender tomorrow. On the London Metal Exchange most base metals were quiet though at £773 a tonne cash aluminium regained £11.50 of Monday's £18.50 fall. Dealers said dollar-based buying and short-covering appeared the main feature in a rather thin market.

LME prices supplied by Amalgamated Metal Trading.

ALUMINIUM

	Unofficial close(p.m.) £ per tonne	+ or —	High/low
Cash	772.5-3.5	+11.5	763/762.5
3 months	799.5-800	+8.75	801/798.5

Official closing (am): Cash 762.5-3 (786-.5), three months 788.5-9 (783-.5), settlement 763 (786.5). Final Kerb close: 800-1. Turnover: 9,875 tonnes.

COPPER

Higher grade	Unofficial close	+ or —	High/low
Cash	966-7		961/959
3 months	992-.5	—1.5	994/985

Official closing (am): Cash 960.5-1.5 (969-70), three months 986-.5 (994-5.5), settlement 961.5 (970). Final Kerb close: 993-4.

Cathodes			
Cash	952-5	+1.25	945/945
3 months	982-5	+1.5	—

Official closing (am): Cash 945-7 (951-4), three months 976-7 (982-4), settlement 947 (954). Turnover: 21,250 tonnes. US Producer prices 67.00-72.00 cents per lb.

LEAD

	Unofficial close(p.m.) £ per tonne	+ or —	High/low
Cash	258.5-9.5	+2.0	258.5/257
3 months	269-70	+2.0	272/267

Official closing (am): Cash 256.5-7 (261-.5), three months 267-.5 (271.5-2), settlement 257 (261.5). Final Kerb close: 271-3. Turnover: 9,450 tonnes. US Spot 18.50-20.0 cents per lb.

NICKEL

	Unofficial close(p.m.) £ per tonne	+ or —	High/low
Cash	2885-95	—50.0	—
3 months	2940-9	—43.0	2960/2900

Official closing (am): Cash 2870-80 (3050-5), three months 2930-40 (3074-5), settlement 2880 (3055). Final Kerb close: 2930.5. Turnover: 744 tonnes.

ZINC

High grade	Unofficial close (p.m.) £ per tonne	+ or —	High/low
Cash	465-6	—3.0	—
3 months	467-.5	—2.0	468/459

Official closing (am): Cash 449-50 (464-5), three months 463-4 (472-3), settlement 450 (466). Final Kerb close: 464-5. Turnover: 8,375 tonnes. US Prime Western 33.00-35.75 cents per lb.

GOLD

Gold rose $1½ an ounce from Monday's close in the London bullion market yesterday to finish at $329½-330. The metal opened at $328¾-329¼ and traded between a low of $328½-329 and a high of $330¾-330½. Gold was helped by a strong rise in platinum prices and managed to break through the $330 level to touch its best level for six weeks.

GOLD BULLION (fine ounce) Jan. 7

Close	$329½-330	(£228½-229)
Opening	$328¾-329¼	(£228-228¼)
M'n'g fix	$328.90	(£227.770)
Aft'n'n fix	$330.00	(£228.849)

GOLD AND PLATINUM COINS

Kr'g'rnd	$331-331½	(£229½-230)
½ Krug.	$175¼-175¾	(£121¼-122)
¼ Krug.	$89½-90	(£62-62½)
1/10 Krug.	$36¼-37	(£25¼-25¾)
Mapleleaf	$339¾-340¼	(£235½-236)
Angel	$338¼-340¼	(£234¾-236)
1/10 Angel	$33-38	(£22¾-26¼)
New Sov.	$79-79½	(£54¾-55¼)
½ New Sov	$47½-48	(£33-33½)
Old Sov.	$84½-86	(£58½-59½)
$20 Eagle	$430-470	(£298¼-326)
Noble Plat	$371¼-375¼	(£257¼-260¼)

SILVER

Silver was fixed 0.75p an ounce higher for spot delivery in the London bullion market yesterday at 404.8p. US cent equivalents of the fixing levels were: spot 584.5c, up 5.5c; three-month 595.25c, up 5.5c; six-month 606.65c, up 5.65c; and 12-month 628.7c, up 4.7c. The metal opened at 406-407p (584-586c) and closed at 406½-408½p (586-588c).

SILVER per troy	Bullion Fixing Price	+ or —	L.M.E. p.m. Unoffic'l	+ or —
Spot	404.80p	+0.75	405p	+3
3 months	416.00p	+0.70	417.5p	+4.5
6 months	428.05p	+1.00	—	—
12 months	450.60p	+0.70	—	—

LME — Turnover: 48 (119) lots of 10,000 ounces.

Three months high 415p, low 413p, final kerb 417.5-8.5p.

MEAT

Prices closed on a steady note due to fresh buying in light volume, reports Eastern Capital-CCST.

Month	Yesterday's close	Previous close	Business done
	p. per kilo (deadweight)		
Feb	101.50	101.10	101.00-100.80
April	102.40	101.90	102.00-101.80
June	99.80	99.80	99.70
Aug	98.10	98.30	—
Oct	104.10	104.80	104.80
Nov	106.50	106.70	106.20

Sales: 29 (74) lots of 50 carcases, 3,250 kg.

INDICES

FINANCIAL TIMES

Jan. 7	Jan. 6	M'th ago	Year ago
—	—	—	298.31

(Base: July 1 1952 = 100)

REUTERS

Jan. 7	Jan. 6	M'th ago	Year ago
1762.0	1771.8	1706.1	1919.3

(Base: September 18 1931 = 100)

DOW JONES

Dow Jones	Jan. 7	Jan. 6	Month ago	Year ago
Spot	127.69	126.97	—	130.44
Fut.	134.87	133.96	—	134.09

(Base: December 31 1974 = 100)

* Not available due to suspension of the LME.

MAIN PRICE CHANGES

In tonnes unless otherwise stated.

	Jan. 7 1986	+ or —	Month ago
METALS			
Aluminium	£1100		£1100
Free Mkt	$1175/95	+25	$1060/80
Copper			
Cash h Grade	£966.5	[illegible]	£964.25
3 mths	£992.25	[illegible]	[illegible]
Gold Troy oz	$329.65	+1.5	$318.25
Lead Cash	£258.5	+2	£285
3 mths	£269.5	+2	£276.25
Nickel	[illegible]		[illegible]
Free Mkt	186/285c		[illegible]
Palladium oz	$95.50	+0.5	$95.25
Platinum oz	$361.25	+11.5	$335.00
Quicksilver	$250/260		$270/280
Silver troy oz	404.80p	+0.75	403.60p
3 mths	416.00p	+0.70	414.80p
Tin cash	—		—
3 months	—		—
Tungsten	[illegible]		$67.77
Wolfram 22.04lb	$53.61		$58/64
Zinc	£466.5	[illegible]	£467.25
3 months	£467.25	[illegible]	£463.5
Producers	$850/875		$860/870
OILS			
Coconut (Phil)	$435v		$550
Palm Malayan	$365	—20	$580
SEEDS			
Copra Phil	$270x		$357.5
Soyabean (U.S.)	$234.1	+1.8	$217.75
GRAINS			
Barley Fut. Mar.	£115.75	+0.8	£113.45
Maize	£143.35		£142.50
Wheat Fut. Mar.	£116.35	+0.55	£115.55
No. 2 Hard Wint.	£		
OTHERS			
Cocoa Ft. May	£1745	+4	£1778.5
Coffee Ft. May	£3063.5	+161.5	£2076.5
Cotton A Index	50.00c	+0.45	48.05c
Gas Oil Feb	$237		$257
Rubber (kilo)	57p		57p
Sugar (raw)	$128u	+2.5	$142.5
Woolltops 64s	537p kilo		552p kilo

$ Unquoted. † Per 75-lb flask. c Cents per pound. v Jan-Feb. z Feb.

COCOA

Futures opened a little steadier than due and after easing slightly during the early afternoon rallied to close on a firm note. Producers and consumers declined to re-enter the market and physical interest was minimal, reports Gill and Duffus.

COCOA	Yesterday's Close £ per tonne	+ or —	Business Done
March	1726-1728	—13.5	1747-1726
May	1744-1746	+4.0	1758-1739
July	1767-1768	+13.5	1774-1756
Sept.	1788-1790	+16.0	1786-1785
Dec.	1797-1803	+14.5	1804-1794
March	1812-1823	+14.0	1828-1856
May	1820-1843	+10.8	—

Sales: 3,065 (2,205) lots of 10 tonnes.

ICCO indicator prices (US cents per pound). Daily price for January 6: 108.99 (109.66); five-day average for January 7: 109.46 (109.83).

COFFEE

A steady New York close and firmer export levels from Brazil pushed prices to new highs with March reaching £3,100. Profit-taking mid-afternoon pared the gains. Good speculative and trade buying was seen throughout the day with light trade hedging.

COFFEE	Yesterday's Close	+ or —	Business Done
Jan.	2950-45	+146.5	3005-2875
March	3005-10	+151.5	3100-3000
May	3063-65	+169.5	3176-070
July	3160-75	+188.0	3255-140
Sept.	3230-60	+187.5	3319-195
Nov.	3266-60	+156.5	3340-225
Jan.	3250-90	+157.5	3388-260

Sales: 14,983 (9,247) lots of 5 tonnes.

ICO indicator prices (US cents per pound) for January 6: Comp. daily 1979 223.03 (220.64); 14-day average 194.93 (190.60).

FREIGHT FUTURES

The market opened unchanged. Levels were eroded during the afternoon as some trade inspired profit-taking became the major factor, reports Clarkson Wolff. The Baltic Freight Index was 902.5, down 1.5. The Tanker Freight index was 963, down 37.

	Close	High/Low	Prev.
Jan.	896/899	901/899	900/901
April	963/964	966/962	964/968
July	835/840	836	839/840
Oct.	924/930	—	925/950
Jan.	925/945	—	920/940
April	1010/1040	—	1005/1040
July	830/880	—	840/880
Oct.	940/990	—	950/990

Turnover: 155 (48).

GRAINS

Old crop wheat rose 20p after the previous day's losses but remained in a tight range in thin trading. Barley reached 50p up before easing on long liquidation late in the day. New crops saw good country selling and fell 40p before finding shipper buying support to close at the day's highs.

Mnth	WHEAT Yesterd'ys close	+ or —	BARLEY Yesterd'ys close	+ or —
Jan	113.65	+0.05	113.70	+0.20
Mar	116.25	+0.05	115.75	+0.30
May	119.30	+0.15	117.80	+0.30
July	121.50	+0.15	—	—
Sept	99.75	—0.25	99.60	+0.05
Nov	102.70	—0.10	102.65	+0.05

Business done—Wheat: Jan 113.75-3.65, March 116.30 only, May 119.40-9.25, July 121.50 only, Sept 99.65 only, Nov 102.70 only. Sales: 163 lots of 100 tonnes. Barley: Jan 112.70-2.50, March 115.85-5.45, May 118.00-7.60, Sept 99.50-9.40, Nov 102.50 only. Sales: 81 lots of 100 tonnes.

LONDON GRAINS—Wheat: US dark northern spring no 1 15 per cent Jan 133.75, Feb 137.50, Mar 138.25 sellers transhipment east coast. US no 2 soft red winter Jan 127, Feb 127.50, Mar 128.50 sellers. EC French Dec 135. English feed fob Jan 115.25, Aug 25/Sept 10 101 paid east coast, Jan/Mar 18.50 sellers, April/June 121.50-122.50 buyer/sellers, Sept 101.50, Oct/Dec 105 buyers. Maize: US no 3 yellow/French transhipment east coast Dec 143.25. Barley: English feed fob Jan 116.25 Perth, 117 Peterhead, Feb 119, Feb/Mar 120, Jan/Mar 118.50. April/June 122.50 sellers. Rest unquoted.

HGCA — Locational ex-farm spot prices: Feed barley: S. East 111.80, W. Midlands 111.40, N. West 110.70. The UK monetary coefficient for the week beginning Monday January 13 (based on HGCA calculations using five days' exchange rates) is expected to remain unchanged.

JUTE

JUTE—Raw: Jan/Feb c and f Dundee BTC $470, BWC $480, BTD $435, BWD $435; c and f Antwerp BTC $450, BWC $450, BTD $410, BWD $410. Products: c and f Dundee ex-India Jan/Feb shipment 40 in 10 oz £16.55, 40 in 7.5 oz £12.77; B twills £44.42.

US MARKETS

GOLD AND SILVER generally firmed, reflecting Middle East tension along with strength to financials, reports Heinold Commodities. Copper and aluminium were sharply higher on good buying linked to concern over prevailing stock levels. Good commercial buying firmed sugar values. Coffee traded sharply higher on the unexpectedly large increase in the Brazilian minimum registration price. Cocoa remained weak in the nearbys on good availability. A firm tone was evident in cotton on good mill interest. The energy complex came under pressure from expectations that the weekly stocks report will show a large stock build-up. The soyabean complex gained ground on the Brazilian drought. The grain complex firmed with maize rallying on large loan entries.

NEW YORK

ALUMINIUM 40,000 lb, cents/lb

	Close	High	Low	Prev
Jan	52.80	—	—	51.95
Feb	53.10	—	—	52.40
March	53.45	53.50	52.80	52.60
May	54.05	54.05	53.40	53.20
July	54.65	54.60	54.55	53.80
Sept	55.30	—	—	54.45
Dec	56.25	—	—	55.40
Jan	56.55	—	—	55.70
March	57.20	—	—	56.35
May	57.85	—	—	57.00

COCOA 10 tonnes, $/tonnes

	Close	High	Low	Prev
March	2201	2233	2191	2214
May	2247	2274	2240	2261
July	2268	2298	2270	2282
Sept	2297	2320	2290	2305
Dec	2305	2329	2319	2308
March	2317	—	—	2320
May	2321	—	—	2330

COPPER 25,000 lb, cents/lb

	Close	High	Low	Prev
Jan	64.70	—	—	63.75
Feb	65.05	—	—	64.15
March	65.45	65.50	64.55	64.50
May	65.45	65.50	64.75	64.70
July	65.55	65.50	64.90	64.95
Sept	65.65	66.35	65.10	65.10
Dec	65.80	65.90	65.40	65.35
Jan	65.90	—	—	65.45
March	66.00	66.30	66.25	65.65
May	66.15	—	—	65.85

COTTON 50,000 lb, cents/lb

	Close	High	Low	Prev
March	62.01	62.45	61.95	61.92
May	62.02	62.43	62.01	62.07
July	58.50	59.10	58.30	58.15
Oct	49.65	49.83	49.75	49.56
Dec	48.30	48.45	48.25	48.27
March	49.00	—	—	49.02
May	49.30	49.35	49.25	49.35

CRUDE OIL (LIGHT) 42,000 US gallons, $/barrels

	Latest	High	Low	Prev
Feb	26.17	26.44	26.06	26.57
March	25.17	25.43	25.06	25.59
April	24.35	24.55	24.26	24.81
May	23.73	23.98	23.66	24.18
June	23.25	23.47	23.15	23.74
July	22.94	23.18	22.86	23.36
August	22.65	22.85	22.60	23.03
Sept	22.35	22.50	22.30	22.73
Oct	22.05	22.05	22.05	22.48
Nov	21.85	21.85	21.85	22.25

SUGAR WRLD "11" 112,000 lb, cents/lb

	Close	High	Low	Prev
March	5.88	5.89	5.68	5.62
May	6.09	6.10	5.90	5.84
July	6.30	6.30	6.10	6.02
Sept	6.46	6.30	6.23	6.18
Oct	6.57	6.57	6.37	6.29
March	7.17	7.12	7.00	6.93
Jan	6.89	—	—	6.81
May	7.30	—	—	7.15

COFFEE "C" 37,000 lb, cents/lb

	Close	High	Low	Prev
March	273.45	276.00	271.20	261.67
May	265.09	—	—	259.09
July	269.18	—	—	263.18
Sept	272.96	—	—	266.96
Dec	276.94	—	—	270.94
March	279.45	—	—	273.45
May	278.46	—	—	272.46

GOLD 100 troy oz, $/troy oz

	Close	High	Low	Prev
Jan	331.0	330.0	330.0	328.8
Feb	332.8	333.0	331.3	330.7
March	334.6	—	—	332.5
April	336.6	337.0	335.0	334.5
June	340.6	341.0	338.8	338.5
August	344.7	344.7	343.6	342.6
Oct	349.0	349.0	348.4	346.9
Dec	353.3	352.7	351.1	351.2
Feb	357.7	356.3	356.3	355.6
June	366.5	—	—	364.4
August	370.9	—	—	369.3
Oct	376.3	374.9	374.9	374.2

HEATING OIL 42,000 US gallons, cents/US gallons

	Latest	High	Low	Prev
Feb	76.75	78.20	75.25	78.73
March	72.60	73.20	72.10	73.49
April	68.15	68.60	67.70	69.30
May	64.50	65.10	64.35	65.90
June	63.00	63.80	63.00	64.20
July	62.80	—	—	63.50

ORANGE JUICE 15,000 lb, cents/lb

	Close	High	Low	Prev
Jan	106.90	108.15	106.00	107.65
March	109.05	111.80	107.20	110.35
May	111.00	113.25	109.08	112.50
July	113.00	114.90	111.00	114.20
Sept	112.60	114.00	112.75	113.50
Nov	112.35	115.00	113.00	114.00
Jan	113.60	115.00	115.00	114.50
March	114.60	116.00	116.00	115.50
May	114.60	—	—	115.50

PLATINUM 50 troy oz, $/troy oz

	Close	High	Low	Prev
Jan	356.9	362.5	355.0	358.7
Feb	357.9	—	—	359.7
March	358.9	—	—	361.2
April	360.9	367.5	357.5	363.2
July	364.1	370.0	360.0	366.7
Oct	368.4	374.5	364.0	371.2
Jan	372.8	376.0	372.0	375.4

SILVER 5,000 troy oz, cents/troy oz

	Close	High	Low	Prev
Jan	590.3	588.0	588.0	583.6
Feb	593.6	—	—	587.1
March	597.5	598.9	592.5	591.0
May	606.1	606.5	600.5	598.7
July	612.8	614.0	608.5	606.4
Sept	620.8	622.0	618.0	614.5
Dec	632.8	633.5	628.0	626.7
Jan	637.0	—	—	631.0
March	645.3	646.5	641.0	639.4
May	653.8	—	—	648.1

CHICAGO

LIVE CATTLE 40,000 lb, cents/lb

	Close	High	Low	Prev
Feb	58.80	59.05	58.47	58.47
April	60.52	60.65	60.05	59.77
June	60.02	60.35	59.85	59.80
August	59.00	59.40	58.82	58.77
Oct	57.85	58.05	57.77	57.62
Dec	59.60	59.70	59.60	59.50

LIVE HOGS 30,000 lb, cents/lb

	Close	High	Low	Prev
Feb	46.20	46.55	45.95	46.40
April	42.00	42.70	41.80	42.55
June	45.27	45.50	45.07	45.30
July	45.55	45.75	45.35	45.55
August	44.70	44.75	44.40	44.55
Oct	41.52	41.75	41.40	41.65
Dec	42.42	42.70	42.30	42.65
Feb	42.75	42.90	42.65	42.95

MAIZE 5,000 bu min, cents/56lb-bushel

	Close	High	Low	Prev
March	249.0	249.4	247.4	246.6
May	252.4	252.6	251.0	250.0
July	252.4	253.0	250.4	249.6
Sept	235.2	235.2	233.2	233.2
Sept	235.2	235.2	233.2	233.2
Dec	225.0	225.0	222.6	223.0
March	232.6	232.6	231.0	231.0
May	236.4	236.4	236.0	235.4

PORK BELLIES 38,000 lb, cents/lb

	Close	High	Low	Prev
Feb	65.35	65.90	65.10	65.42
March	65.32	65.75	65.05	65.20
May	66.20	66.45	65.90	65.95
July	65.95	66.00	65.30	65.42
August	63.40	63.45	63.05	62.85

SOYABEANS 5,000 bu min, cents/60lb-bushel

	Close	High	Low	Prev
Jan	542.4	546.0	538.0	533.2
March	552.6	557.0	549.0	544.2
May	564.4	566.4	559.4	553.6
July	572.2	574.4	566.4	561.2
August	570.0	572.0	567.0	560.0
Sept	547.0	550.4	547.0	539.4
Nov	542.2	546.4	540.0	537.2
Jan	554.0	555.4	552.0	547.4
March	564.0	565.0	560.4	557.4

SOYABEAN MEAL 100 tons, $/ton

	Close	High	Low	Prev
Jan	154.9	155.2	152.5	150.8
March	157.1	157.4	154.5	152.3
May	158.9	159.0	157.0	154.3
July	160.8	160.8	159.0	156.2
August	160.0	160.5	158.5	156.2
Sept	154.3	157.0	154.0	151.5
Oct	151.0	151.5	151.0	148.3
Dec	151.8	152.5	151.0	149.9
Jan	151.3	152.5	151.0	149.5
March	154.3	155.0	154.0	155.0

SOYABEAN OIL 60,000 lb, cents/lb

	Close	High	Low	Prev
Jan	21.01	21.20	20.95	20.85
March	21.38	21.55	21.30	21.12
May	21.78	21.80	21.72	21.53
July	22.05	22.18	22.00	21.84
August	22.07	22.15	22.06	21.81
Sept	21.75	21.75	21.65	21.45
Oct	21.43	21.50	21.40	21.30
Dec	21.25	21.40	21.25	21.20
Jan	21.25	21.25	21.25	21.10

WHEAT 5,000 bu min, cents/60lb-bushel

	Close	High	Low	Prev
March	334.2	335.4	333.0	331.6
May	311.6	313.0	311.2	309.6
July	280.6	282.2	280.2	278.2
Sept	280.0	281.2	279.6	277.2
Dec	290.0	292.6	289.6	288.4

SPOT PRICES—Chicago loose lard 16.50 (16.00) cents per pound. Handy and Harman silver bullion 586.5 (581.5) cents per troy ounce.

POTATOES

The market immediately broke £95.00, basis April, hitting stop-loss buying orders which rapidly pushed values a further £2.00 higher in heavy volume. Prices dipped 50p before finding renewed buying interest which kept the market above £96.50—the highest level since April 19 1985. One cause of the current strength appears to be adverse weather conditions giving rise to expectations of frost damage and/or temporary squeezes in physical supply, reports Coley and Harper.

Month	Yesterday's close	Previous close	Business done
	£ per tonne		
Feb	81.50	80.20	82.50-81.50
Apr	96.90	94.60	97.40-95.00
May	103.60	101.00	104.50-05.00
Nov	77.00	76.80	—

Sales: 1,272 (468) lots of 40 tonnes.

SOYABEAN MEAL

The market opened £1 higher on professional buying, reports T. G. Roddick. Prices remained steady on continued trade buying to lower South American crop estimates.

	Yesterday close	+ or —	Business Done
	$ per tonne		
Feb	152.5-154.8	+4.85	—
Apr	156.5-157.0	+4.85	158.0-154.0
June	153.7-134.8	+4.85	151.5
August	152.8-151.5	+3.10	—
October	150.5-152.8	+2.50	—
Dec.	153.0-154.0	+2.40	—
Feb.	151.0-158.8	+2.80	—

Sales: 41 (123) lots of 20 tonnes.

SUGAR

LONDON DAILY PRICE—Raw sugar $128.00 (£88.50), up $2.50 (up £1.00) a tonne for January-February delivery. White sugar $166.00, up $3.00.

No. 6 Contract	Yest'day's close	Previous close	Business done
	$ per tonne		
Mar	153.8-154.0	148.8-148.8	154.8-148.8
May	158.8-158.8	155.8-155.8	153.0-154.0
Aug	164.4-164.8	158.0-158.4	164.8-160.8
Oct	169.2-169.8	165.8-164.4	166.4-165.8

Sales: 2,062 (929) lots of 50 tonnes.

Tate and Lyle delivery price for granulated basis sugar was £190.50 (£188.50) a tonne for export.

International Sugar Agreement—(US cents per pound fob and stowed Caribbean ports.) Prices for January 6: Daily price 4.78 (4.80); 15-day average 5.04 (5.08).

PARIS—(FFr per tonne): March 1284-1286, May 1308-1311, Aug 1370-1380, Oct 1405-1425, Dec 1425-1445, March 1495-1515.

OIL

Buyers of crude were keeping a low profile. Prices talked for forward Brent declined but a number of deals were done. Nymex WTI opened 17c down for February and traded 45c down at 1 pm EST. Gas/oil's firm start faded by afternoon on lack of buying interest. Prompt naphtha weakened on reports of distressed Russian cargo. Heavy fuel rallied on buying interest into the UK—Petroleum Argus, London.

SPOT PRICES

	Latest	Change + or —
CRUDE OIL—FOB ($ per barrel)—Jan.		
Arab Light	27.70-27.80*	—
Arab Heavy	25.95-25.75*	—
Dubai	25.80-25.45*	—0.10
Brent Blend	26.25-26.35	—0.25
W.T.I. (1pm est)	26.10-26.20*	—0.175
Forcados (Nigeria)	26.75-26.95	—0.10
Urals (cif NWE)	26.30-26.50	—
PRODUCTS—North West Europe Prompt delivery cif ($ per tonne)		
Premium gasoline	253-256	—
Gas Oil	241-243	+1
Heavy fuel oil	136-138	+2
Naphtha	224-226	—2

* February

Petroleum Argus estimates

GAS OIL FUTURES

Month	Yest'day's Close	+ or —	Business Done
	$ U.S. per tonne		
Jan.	240.00	—0.50	242.00-38.75
Feb.	229.75	—3.00	234.75-28.50
Mar.	219.50	—2.00	224.00-19.50
Apr.	209.50	—2.00	215.25-09.50
May	202.00	—2.50	203.25-02.00
June	197.50	—3.00	[illegible]
July	197.50	—3.00	197.50
Aug	199.50	—2.25	202.00-99.50

Turnover: 2,826 (1,247) lots of 100 tonnes.

CRUDE OIL FUTURES—Brent Blend Index ($ a barrel). Close (change, business done): Index 25.30, +0.35; Feb 24.90-25.00, —0.40, 24.91; March 23.90-24.40; April 23.31-23.70; May 22.60-23.50; June 22.00-23.40.

Turnover: 1 (10) lots of 1,000 barrels.

RUBBER

PHYSICALS—The London market opened about unchanged, drifted lower throughout the day and closed on an easy note, reports Lewis and Peat. Closing prices (buyers) spot 57.00p (same). February 55.25p (same). March 55.50p (same). The Kuala Lumpur fob price (Malaysia/Singapore cents) per kg RSS No 1 was 178.0 (same) and for SMR 20 171.0 (171.5).

Oil rig module yard to lay off 200

CHARLTON Leslie Offshore, Tyneside oil rig module manufacturer, is to make 200 workers redundant later this month.

The company, which employs 800 men at its Wallsend yard, said it was coming to the end of two projects but was bidding for more work and the jobs might be recreated later in the year.

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar active in narrow range

The dollar traded quite actively in currency markets yesterday but remained confined to a fairly narrow range. The reasonable level of business tended to reflect the rather confusing picture surrounding the dollar. In the absence of any clear economic indicators, the market was indulging in speculation as to whether the US economy would show further signs of sluggish growth and drag down interest rates or whether the authorities had seen the dollar depreciate far enough for the time being.

Recent comments by leading Japanese officials stressing a desire to see the yen stabilise at around its current level against the dollar tended to switch attention to the dollar/D-mark rate. Here the dollar made an early attempt to establish itself above DM 2.44, but with a number of large selling orders about it failed to attract any upward momentum and eased to a low of DM 2.4255. By the close short-covering and profit-taking had brought it back to DM 2.4405, still down from DM 2.4475 on Monday. Elsewhere it slipped to Y201.45 from Y201.90 and SFr 2.0670 compared with SFr 2.07. Against the French franc it fell to FFr 7.48 from FFr 7.50. On Bank of England figures, the dollar's exchange rate index fell to 125.1 from 125.8.

Today's US unemployment figures may give some indication on the strength of US economic growth.

Sterling continued to suffer from a loss of confidence with the market content to push the pound weaker on the probability on lower oil prices later this year. Domestic interest rates were a little higher and this helped the pound to finish the day on a better note. In view of the rather gloomy picture surrounding sterling it performed quite well to close unchanged against the D-mark at DM 3.5150, having fallen at one stage to DM 3.5025, and Y290.10 from Y290.0. Against the Swiss franc it was higher at SFr 2.9775 from SFr 2.9725 and FFr 10.7725 compared with FFr 10.7700.

Against the dollar it traded between $1.45 and $1.4355 before closing at $1.4395-1.4405, a rise of just 40 points from Monday's close. The pound's recovery was not fully reflected in its Bank of England exchange rate index which closed at 77.5 up from a low of 77.4 touched in the afternoon but down from 77.9 on Monday.

D-MARK — Trading range against the dollar in 1985-86 is 3.4510 to 2.4375. December average 2.5129. Exchange rate index 131.9 against 122.3 six months ago.

The D-mark improved against the dollar in Frankfurt yesterday with the US unit closing at DM 2.4330, down from DM 2.4490. Earlier in the day it had been fixed at DM 2.4375 compared with DM 2.4760. Attempts to push the dollar above DM 2.4400 failed to attract any follow through buying and the US unit fell back. Demand for the D-mark was helped by heavy trading in West German equities. Elsewhere the D-mark showed little overall change against its European partners and was only slightly firmer against the yen at Y82.54 from Y82.50.

£ IN NEW YORK

	Jan. 7	Prev. close
£ Spot	$1.4407-4417	$1.4410-1.4420
1 month	0.47-0.45pm	0.46-0.45pm
3 months	1.38-1.34pm	1.32-1.29pm
12 months	5.00-4.85pm	4.65-4.55pm

Forward premiums and discounts apply to the U.S. dollar.

POUND SPOT—FORWARD AGAINST POUND

Jan 7	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4355-1.4500	1.4395-1.4405	0.47-0.44c pm	3.79	1.40-1.35 pm	3.82
Canada	2.0110-2.0310	2.0110-2.0150	0.39-0.29c pm	2.03	1.16-1.01 pm	2.16
Nethlnd.	3.94½-3.96½	3.94½-3.95½	2¼-1⅞c pm	6.27	6⅝-5⅞ pm	6.01
Belgium	71.65-71.91	71.65-71.75	20-5c pm	2.09	45-30 pm	2.09
Denmark	12.80½-12.86½	12.84½-12.85½	3¼-2¼ore pm	2.80	9¾-8¾ pm	2.84
Ireland	1.1495-1.1575	1.1535-1.1545	0.06ppm-0.21dis	−0.78	0.28-0.69dis	−1.65
W. Ger.	3.50½-3.52	3.51-3.52	2¾-2pf pm	7.88	6¾-6 pm	7.11
Portugal	224.41-228.66	224.41-227.45	135-430c dis	−15.00	430-1,230d	−14.69
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switz.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Belgian rate is for convertible francs. Financial franc 72.30-72.40. Six-month forward dollar 2.80-2.75c pm. 12-month 5.10-4.95c pm.

DOLLAR SPOT—FORWARD AGAINST DOLLAR

†UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 50.20-50.30.

EXCHANGE CROSS RATES

Yen per 1,000: French Fr per 10: Lira per 1,000: Belg Fr per 100.

EURO-CURRENCY INTEREST RATES

Jan. 7	Short term	7 Days notice	1 Month	Three Months	Six Months	One Year
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
U.S. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can Dollar	9⅛-9⅝	9⅛-9¾	9⅜-9⅝	9⅛-9¾	9⅛-9½	9⅜-9⅝
D Guilder	5⅞-6⅛	5⅞-6⅛	5⅞-6⅛	5⅞-6⅛	5⅞-6⅛	5¾-5⅞
Sw. Franc	3⅞-4⅛	2¼-2½	3⅞-4	3⅞-4⅛	4-4⅛	4⅛-4⅜
Deutschmrk	4⅛-4⅜	4⅛-4⅜	4⅛-4⅝	4⅛-4⅝	4⅜-4½	4⅜-4½
Fr. Franc	9-9¼	9¼-9½	10⅝-10½	12⅝-12⅞	12⅝-12⅞	11¼-11¾
Italian Lire	11-14	13¼-16¾	16-17½	16½-17½	16-16¾	14⅞-15⅝
B.Fr.(Fin)	9¾-10	9⅝-9⅞	9¾-10	9¾-10	9¼-9⅛	9⅛-9⅜
Br.Fr(Con)	10-10¼	10⅛-10¾	10¼-10½	10¼-10½	10-10¼	9⅝-9⅞
Yen	6⅞-7	6⅞-6⅞	6⅞-6⅞	6⅞-6⅞	6⅜-6½	6⅜-6⅞
D. Krone	8⅞-9⅝	8¾-9¼	8⅝-9⅛	8¾-9¼	8⅞-9⅜	8⅞-9⅜
Asian $ (Sng)	8⅛-8¼	8⅛-8⅞	8⅛-8⅞	8-8⅛	8-8⅛	8⅛-8⅞

Long-term Eurodollars: two years 8⅝-8⅞ per cent; three years 8⅞-9⅛ per cent; four years 9⅛-9⅜ per cent; five years 9⅜-9⅞ per cent nominal. Short-term rates are call for US dollars and Japanese yen; others two days' notice.

CURRENCY MOVEMENTS

Jan. 7	Bank of England Index	Morgan Guaranty Change %
Sterling	77.5	−13.6
U.S. dollar	126.1	+15.1
Canadian dollar	80.4	−11.6
Austrian schilling	125.0	+6.4
Belgian franc	93.5	−9.1
Danish Kroner	84.2	−2.5
Deutsche mark	131.9	+18.5
Swiss franc	151.5	+11.9
Guilder	121.3	+9.5
French franc	70.3	−11.2
Lira	46.5	−18.8
Yen	176.1	+39.0

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (base average 1975=100).

OTHER CURRENCIES

* Selling rate.

CURRENCY RATES

* CS/SDR rate for December 31: 1.53504

EMS EUROPEAN CURRENCY UNIT RATES

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

FINANCIAL FUTURES

Good volume

Dealers were encouraged by the volume of trading on the London International Financial Futures Exchange yesterday, with dollar denominated contracts meeting good buying interest, and sterling interest rate contracts losing ground as money market rates moved nervously higher and the pound remained vulnerable on the foreign exchanges.

March Eurodollars opened unchanged at 92.17, and fell to an early low of 92.16, but sentiment was generally bullish and bids soon pushed the contract up to a peak of 92.26, before it closed at 92.24. A fall in the Federal funds rates to around 7⅞ per cent from 7⅞ per cent helped support prices, and traders were also optimistic that the current programme of US Treasury auctions will be a success. Japanese investors were expected to be particularly keen to buy US Government paper.

US Treasury bond futures were influenced by the same factors, and also met with good buying. The March contract opened at 84-28, slightly weaker than the previous close, and at the day's low, but rose to a high point of 85-21, before closing at 85-19, compared with 84-31 on Monday.

Sterling contracts were very nervous about a possible rise in clearing bank base rates. Three-month sterling deposits for March opened at 88.12, the day's high, and declined as fears continued to undermine the pound on the foreign exchanges. The contract tried to rally on the monthly UK money supply figures, but closed at the day's low of 87.88, against 88.20 previously. Volume in the contract was a record 7,197 lots, compared with the previous peak of 5,555 on January 28, 1985. Although the rise of 1¼ per cent in sterling M3 was slightly below market forecasts, the increase of £2.1bn in bank lending to the private sector was above most estimates of around £1.5bn.

CURRENCY FUTURES

STERLING INDEX

	Jan 7	Previous
8.30 am	77.5	78.0
9.00 am	77.4	77.8
10.00 am	77.6	77.8
11.00 am	77.7	77.8
Noon	77.7	77.8
1.00 pm	77.7	77.8
2.00 pm	77.6	77.8
3.00 pm	77.4	77.9
4.00 pm	77.5	77.9

LONDON

20-YEAR 12% NOTIONAL GILT; 10% NOTIONAL SHORT GILT; THREE-MONTH STERLING; US TREASURY BONDS; THREE-MONTH EURODOLLAR; FT-SE 100 INDEX; LIFFE—EURODOLLAR OPTIONS; LIFFE £/$ OPTIONS; LIFFE—DEUTSCHE MARKS

CHICAGO

US TREASURY BONDS (CBT); THREE-MONTH EURODOLLAR (IMM); CERT. DEPOSIT (IMM); US TREASURY BILLS (IMM); LONDON SE £/$ OPTIONS; PHILADELPHIA SE £/$ OPTIONS

MONEY MARKETS

London rates stay nervous

Interest rates were slightly higher in nervous trading on the London money market yesterday. The Bank of England maintained a spread of dealing rates in its market intervention, but dealers were not convinced this was an indication of higher bank base rates in the immediate future. Sterling was steady to firm on the foreign exchanges and oil prices were quiet and little changed, giving no incentive for any change in interest rates. But the money market remained very nervous and the discount houses were willing sellers of paper when the Bank of England offered an early round of assistance.

Three-month interbank rose to 12-12⅛ per cent from 11⅞-12 per cent, and discount houses buying rates for three-month bank bills rose to 11⅞ per cent from 11⅞-11⅞ per cent.

The Bank of England initially forecast a money market shortage of around £950m, but changed this to £1,100m at noon, and provided total help on the day of £1,085m.

An early round of assistance was offered and at that time the authorities bought £858m bills outright, by way of £323m bank bills in band 2 at 11⅞ per cent; £32m Treasury bills in band 3 at 11½-11⅞ per cent; £48m local authority bills in band 3 at 11½ per cent; £162m bank bills in band 3 at 11½ per cent; £87m Treasury bills in band 4 at 11⅞-11½ per cent; £6\1 local authority bills in band 4 at 11⅞ per cent; and £138m bank bills in band 4 at 11⅞-11⅞ per cent.

Another £60m bills were purchased before lunch, through £33m bank bills in band 2 at 11⅞ per cent; £6m bank bills in band 3 at 11½-11⅞ per cent; £3m Treasury bills in band 4 at 11⅞ per cent; £11m local authority bills in band 4 at 11⅞ per cent; and £7m bank bills in band 4 at 11⅞-11½ per cent.

In the afternoon £167m bills were bought outright, by way of £3m bank bills in band 1 at 11⅝ per cent; £151m bank bills in band 2 at 11½ per cent; and £13m bank bills in band 3 at 11½ per cent.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £289m, with Exchequer transactions absorbing £760m, and bank balances below target another £40m. These outweighed a fall in the note circulation adding £95m to liquidity.

UK clearing banks base lending rate 11½ per cent since July 30

NEW YORK RATES

(Lunchtime)

Prime rate	9½
Broker loan rate	9
Fed funds	7⅞
Fed funds at intervention	—

Treasury Bills & Bonds

One month	6.48
Two month	6.88
Three month	7.28
Six month	7.43
One year	7.58
Two year	7.96
Three year	8.22
Four year	8.35
Five year	8.48
Seven year	8.87
10 year	8.97
30 year	9.22

FT LONDON INTERBANK FIXING

(11.00 a.m. Jan. 7)

Three months U.S. dollars		Six months U.S. dollars	
bid 7 15/16	offer 8 1/16	bid 7 15/16	offer 8 1/16

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

LONDON MONEY RATES

Rows: Interbank; Sterling CDs; Local Authority Deps; Local Authority Bonds; Discount Mkt Deps; Company Deposits; Finance House Deposits; Treasury Bills (Buy); Bank Bills (Buy); Fine Trade Bills (Buy); Dollar CDs; SDR Linked Deposits; ECU Deposits.

Treasury Bills (sell): one-month 11⅝ per cent; three-months 11⅝ per cent. Bank Bills (sell): one-month 11⅝ per cent; three-months 11⅝ per cent. Treasury Bills: Average tender rate of discount 11.2052 per cent. ECGD Fixed Finance Scheme IV reference rate December 4 to January 7 (inclusive): 11.838 per cent. Local authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 12 per cent from January 1 1986. Bank Deposit Rates for sums at seven days' notice 6.25-6.625 per cent. Certificates of Tax Deposits (Series 6): Deposits £100,000 and over held under one month 11½ per cent; one-three months 11½ per cent; three-six months 11½ per cent; six-nine months 11½ per cent; nine-12 months 11½ per cent. Under £100,000 10¾ per cent from January 7. Deposits held under Series 5 11½ per cent. Deposits withdrawn for cash 7½ per cent.

MONEY RATES

Rows: Frankfurt; Paris; Zurich; Amsterdam; Tokyo; Milan; Brussels; Dublin.

London Clearing Banks' balances

as at December 11 1985

THE TABLES below provide the first monthly indication of the trends of bank lending and deposits, ahead of the more comprehensive banking and money supply figures published later by the Bank of England. They are prepared by the clearing banks and cover the business of their offices and their subsidiaries which are listed by the Bank of England as falling within the monetary sector.

TABLE 1.

AGGREGATE BALANCES	Total outstanding £m	£m	Change on month £m	£m
LIABILITIES				
Sterling deposits:				
UK monetary sector	24,391		+1,838	
UK private sector	79,306		+551	
UK public sector	1,719		−517	
Overseas residents	12,543		−165	
Certificates of deposit	5,941		+17	
		123,901		+1,721
of which: Sight		49,205		+1,396
Time (inc. CD's)		74,695		+325
Foreign currency deposits:				
UK monetary sector	17,869		+426	
Other UK residents	6,065		+245	
Overseas residents	47,729		+1,239	
Certificates of deposit	6,219		+258	
		77,911		+2,179
Total deposits		200,812		+3,899
Notes in circulation		916		+48
Other liabilities*		32,977		+945
TOTAL LIABILITIES		234,705		+4,896
ASSETS				
Sterling				
Cash and balances with Bank of England:				
Cash ratio deposits	436			
Other balances	2,114		+97	
		2,550		+97
Market loans:				
Discount houses	4,194		+414	
Other UK monetary sector	21,638		+566	
UK monetary sector CD's	3,200		+120	
Local authorities	786		−27	
Other	2,291		+95	
		32,099		+1,178
Bills:				
Treasury bills	119		+52	
Other bills	2,495		+47	
		2,615		+99
Investments:				
British Government stocks	3,743		−85	
Other	3,418		−59	
		7,161		−145
Advances:				
UK private sector	83,007		+172	
UK public sector	300		−36	
Overseas residents	5,647		+1,312	
		88,954		+1,448
Other sterling assets*		12,190		−890
Foreign currencies				
Market loans:				
UK monetary sector	19,745		+873	
Certificates of deposit	715		+91	
Other	33,649		+1,549	
		54,109		+2,514
Bills		283		−76
Advances:				
UK private sector	6,995		+312	
UK public sector	1,004		−2	
Overseas residents	19,002		+90	
		27,001		+399
Other foreign currency assets*		7,734		+181
TOTAL ASSETS		234,705		+4,896
Acceptances		5,125		+123
Eligible liabilities		91,971		+1,537

* Includes items in suspense and in transit.

TABLE 2. INDIVIDUAL GROUP BALANCES

	CLSB groups £m	Bank of Scotland £m	Barclays £m	Lloyds £m	Midland £m	National Westminster £m	Royal Bank of Scotland £m	Standard Chartered £m
LIABILITIES OUTSTANDING								
Sterling deposits	123,901	5,093	29,123	22,531	20,315	36,365	7,652	2,717
Change on month	+1,721	+39	+776	+262	+70	+299	+147	+179
Foreign currency deposits	77,911	1,210	14,087	13,087	15,237	21,595	3,259	6,436
Change on month	+2,179	−2	+270	+654	−329	+699	−26	+912
Total deposits	200,812	6,303	43,211	35,618	35,652	57,963	10,912	11,153
Change on month	+3,899	+37	+410	+1,430	+33	+777	+121	+1,091
STERLING ASSETS OUTSTANDING								
Cash and balances with the Bank of England	2,550	324	472	256	495	548	439	18
Change on month	+97	+25	+30	−13	+33	−12	+14	+8
Market loans—UK monetary sector	25,622	627	5,336	4,624	3,219	10,518	1,629	829
Change on month	+980	−89	+194	−171	+195	+316	+263	+60
Other	6,278	142	1,242	1,129	1,049	2,248	269	195
Change on month	+198	+9	−12	−17	+92	+129	−7	+6
Bills	2,615	89	966	931	172	245	183	28
Change on month	+99	+10	+141	+20	−104	+3	+18	+2
British Government stocks	3,743	299	755	693	632	822	336	220
Change on month	−85	+26	+18	−16	−105	−2	+2	−8
Advances	88,954	4,286	22,691	15,442	14,659	23,480	5,281	1,964
Change on month	+1,448	+80	+234	+461	+263	+310	+73	+7
FOREIGN CURRENCY ASSETS OUTSTANDING								
Market loans and bills	54,392	483	9,939	10,284	8,157	17,179	2,130	6,191
Change on month	+2,438	−10	+343	+844	−562	+666	+104	+1,093
Advances	27,001	958	4,083	3,783	6,723	6,607	1,466	3,411
Change on month	+399	−3	−33	−76	+248	+135	+85	+94
ACCEPTANCES OUTSTANDING	5,125	260	975	492	1,321	1,177	459	438
Change on month	+123	−7	−35	−59	+146	+17	+53	+8
ELIGIBLE LIABILITIES OUTSTANDING	91,971	4,322	22,472	16,722	15,833	24,530	6,314	1,775
Change on month	+1,537	+79	+493	+325	+214	+339	+64	+23

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LONDON SHARE SERVICE

BRITISH FUNDS

1985/86 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
		"Shorts" (Lives up to Five Years)				
101	99	Exch. 11¼pc '86	99	....	11.77	11.94
99	96¾	Treas. 10pcCnv 1986	99	–½	10.06	12.04
97¾	92¾	Treas 3pc 1986	97¾	....	3.08	10.95
100	97½	Exch. 10½pc 1986	99	–	10.56	11.90
101	99¾	Treas 12pc 1986	99	–	12.00	12.01
98	94	Treas 8¼pc 1984-86‡‡	98 xd	–	8.64	12.15
105	101	Exch. 14pc 1986	101	–	13.82	12.12
95	87	Exch. 2½pc 1986	95¾	–	2.62	8.25
104	101	Exch. 13¼pc 1987	101 xd	–	13.09	12.03
99	96¾	Treas 10¼pcCv '87	98 xd	–	10.42	12.01
93	85½	Exch 2½pc 1987	93	–	2.68	8.76
100	96¾	Exch. 10½pc 1987	98¾	–	10.64	12.00
95	89	Funding 6½pc '85-87‡‡	94¾	–	6.89	11.21
99	95½	Treas. 10pc 1987	97½	–	10.26	11.94
92	84¾	Treas 3pc 1987	92xd	–	3.26	8.78
102	99¾	Treas. 12pc 1987	100¼	–	11.97	11.79
95	90¾	Treas 7¾pc 1985-88‡‡	93 xd	–	8.30	11.52
100	95¾	Exch 10½pc '88	97	–	10.75	11.65
98¾	93¾	Treas 9¾pc Cv '88	95	–¼	10.16	11.70
87¾	80	Transport 3pc '78-88	87¾	–½	3.43	8.79
97	91½	Treas. 9½pc '88	94¾	–	10.03	11.73
[illegible]						

Five to Fifteen Years
[illegible]

Over Fifteen Years
[illegible]

Undated
[illegible]

Index-Linked
[illegible]

INT. BANK AND O'SEAS GOVT STERLING ISSUES
[illegible]

CORPORATION LOANS
[illegible]

COMMONWEALTH & AFRICAN LOANS
[illegible]

LOANS
Building Societies
[illegible]

Public Board and Ind.
[illegible]

Financial
[illegible]

FOREIGN BONDS & RAILS
[illegible]

AMERICANS
[illegible]

AMERICANS—Cont.
[illegible]

CANADIANS
[illegible]

BANKS, HP & LEASING
[illegible]

Hire Purchase, Leasing, etc.
[illegible]

BEERS, WINES & SPIRITS
[illegible]

BUILDING, TIMBER, ROADS
[illegible]

BUILDING, TIMBER, ROADS—Cont.
[illegible]

CHEMICALS, PLASTICS
[illegible]

DRAPERY AND STORES
[illegible]

DRAPERY & STORES—Cont.
[illegible]

ELECTRICALS
[illegible]

ENGINEERING
[illegible]

ENGINEERING—Continued
[illegible]

FOOD, GROCERIES, ETC
[illegible]

HOTELS AND CATERERS
[illegible]

INDUSTRIALS (Miscel.)
[illegible]

INDUSTRIALS—Continued
[illegible]

INDUSTRIALS—Continued

1985/86 High	Low	Stock	Price	+ or −	Div Net	C'vr	Y'ld Gr's	P/E
170	110	Metal Closures	134	−10	6.7	2.0	7.1	8.4
17	3	Metal Sciences 2½p	7	......	—	—	—	—
104	63	McClain Marts	92	+4	4.0	2.1	6.2	11.0
85	56½	Mitchell Cotts	68	−½	4.25	2.0	8.9	(6.9)
230	182	Morgan Crucible	220	......	†8.0	1.6	5.2	15.3
33	18	Morris (W) F.A. 20p	22	−½	g0.5	♦	3.2	♦
131	91	Moss (Robt.) 10p	110	......	†3.0	2.7	3.9	11.8
81	60	Myson Grp 10p	70	......	g2.5	3.4	5.1	13.3
330	214	NMW Computers	295	−5	†h4.8	2.7	2.3	22.7
43	27	Nash Inds.	30	......	0.5	—	2.4	—
48	15	Neil & Spencer 10p	18	......	♦	—	—	5.4
44	14½	Newman Inds 10p	34	......	20.3	—	1.3	(16.0)
57	26	Nolton	51	......	0.95	2.6	2.7	7.3
216	146	Norcros	200xd	+1	†8.6	2.0	6.1	10.9
67	45	Nu-Swift 5p	52	−2	†3.0	1.9	8.2	8.4
114	68	Oakwood Grp.	82	......	†d4.5	1.4	7.8	(12.1)
250	150	Office & Elect.	225	−3	†7.5	2.6	4.8	11.5
108	75	Oldacre 20p	78	......	4.0	2.6	7.3	6.9
58	36	Optometrics $0.01	36	......	ud0.2c	—	4.4	—
525	312½	Ovalime £1	525	......	†23.4	1.8	4.5	12.4
18	5½	Owenstone 12½c	8	......	g03.23c	1.9	10.4	5.1
£254	£158	Do. 9pc Cnv 87-92	£254	+20	Q9%	—	(3.6)	—
185	99½	PCT Grp 10p	109	......	3.2	1.2	6.7	(24.6)
£14	850	P.L.M. 'S' Sk 25	950	......	Q21.6%	2.9	5.2	6.7
193	114	PSM Intl.	118	+2	†d5.25	2.5	6.4	8.1
193	115	Pacer Systems $0.01	190	......	bg3.84c	—	1.6	—
68	50	Pacific Sales 10p	65	......	3.0	2.1	6.6	8.5
236	120	Park Place Inv 10p	236	+6	6.25	1.9	3.8	19.8
296	165	Parker Knoll 'A'	251	−1	9.5	2.9	5.4	9.1
238	45	Parkfield Group 5p	210xd	−10	†2.4	2.4	1.6	35.1
80	37	Pavion Intl.	51	−1	—	—	—	—

LEISURE—Continued

1985/86 High	Low	Stock	Price	+ or −	Div Net	C'vr
300	217	LWT	263	......	14.4	1.8
36½	23½	Leisure Inv 10p	32	......	—	—
65	53	Leisuretime Int 10p	59	......	†2.1	3.9
115	98	Lewmar	105	......	u2.63	3.0
183	157	Media Tech Int 20p	172	......	g2.58	5.4
205	129	Medminster 10p	175	......	5.35	2.0
280	156	Mrs World 10p	155	......	3.6	4.1
127½	68	Nationwide Leisure	68½	......	Q3.75	2.5
39	9½	Norsk Int 20c	17	......	—	—
27	19½	Owners Abroad	24	......	1.0	2.2
54	36	Photax (Lon.)	50	......	—	—
29	18	P'dilly Radio NV 5p	29	......	2.0	♦
90	30	Pineapple Dnc St 10p	42	......	—	—
342	183	Pleasurama 5p	297	+5	†h4.6	3.7
161	109	Do. 7pcCvCmRedPf	142	......	7%	—
96	77½	Pres Entertain 50p	92½	......	h2.0	2.1
65	18	Radio City 'A' NV	23	......	—	—
55	35	Radio Clyde N/V	35xd	......	3.25	♦
63	34	Riley Leisure 10p	56	......	‡0.7	—
199	143	Saga Hols. 20p	197	−2	†4.0	2.1
289	97	Samuelson Grp 20p	275	+5	Q2.4	6.0
111	25	Sangers Photo 10p	85	......	‡2.0	1.9
202	130	Scandro 50p	160	......	g3.68	2.6
188	128	Scott. TV 'A' 10p	188	......	†8.8	2.8
508	242	SeeCo Inc $0.125	242	−2	—	—
15	6	SelecTV 10p	8	+½	—	—
140	8	Spectrum 5p	22	......	‡u2.0	4.8
33	23	TSW 5p	31	......	1.7	2.4
153	108	TVS N/Vtg 10p	153	......	6.0	2.2
235	132	Television Svcs 50p	150	......	Q1.5	4.3
79	61	Tottenham Hotspur	63	......	4.0	1.1

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

INSURANCES

LEISURE

PROPERTY—Continued

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

INVESTMENT TRUSTS—Cont.

Finance, Land, etc

FINANCE, LAND—Cont.

OIL AND GAS

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

MINES—Continued

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

Miscellaneous

NOTES

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

"Recent Issues" and "Rights" Page 26
(International Edition Page 30)

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £875 per annum for each security.

LONDON STOCK EXCHANGE

MARKET REPORT

Account Dealing Dates
Option

*First Dealings	Declarations	Last Dealings	Account Day
Dec 23	Jan 9	Jan 10	Jan 20
Jan 13	Jan 23	Jan 24	Feb 3
Jan 27	Feb 6	Feb 7	Feb 17

* "New-time" dealings may take place from 9.30 am two business days earlier.

Equities and Gilts lose more ground on interest rate worries

The threat of dearer money continued to undermine confidence in London stock markets yesterday. Short-term interest hardened further as the technical factors caused by seasonal tax payments exterted fresh pressure on money markets, forcing the authorities to provide more large-scale assistance to relieve temporary cash shortages. The key three-month interbank rate rose to 12 per cent and this was seen to endanger the current level of UK base lending rates, at 11½ per cent since end-July.

Slightly more favourable banking statistics — sterling M3 rose only ½ per cent last month — failed to calm investors' fears about higher borrowing costs and both share and bond markets suffered. Blue chip issues encountered early selling but appeared to have weathered the storm, thanks to the appearance later of cheap buyers. A modest recovery developed but before it could make any lasting impression, the interest rate-sensitive Retail Store sector ran into aggressive liquidation.

Theories that any rise in either base lending or mortgage rates would lead to reduced consumer spending were a factor, and the situation was not helped by a specialist broker taking a cautious view of the sector. This followed unconfirmed reports that Christmas trade may not have been as buoyant as some predictions. Persistent profit-taking brought falls among selected top-quality Stores of 30p and closing prices were generally at the day's lowest. The tone in other market areas became affected and the FT Ordinary share index after looking set at mid-day to establish a rally ended the session 6.5 down at 1,135.3.

Gilt-edged securities, too, had another poor day. Currently out of favour with investors and considered to be lacking short-term scope, short- and longer-dated stocks fell further. The 2.30 pm announcement of the December banking statistics brought a half-hearted recovery but it soon faded to leave conventional Gilts down about ⅝. Index-linked issues were not immune but losses in this area were moderate, extending to ¼ only. Exchange rate uncertainty — sterling improved against a weak dollar but lost ground on most other leading currencies — remained an unsettling influence.

Barclays react

Barclays fell to 455p prior to closing a net 13 down at 459p following a broker's profits downgrading. The other major clearing banks however, having eased early in sympathy, staged a useful rally and closed with only minor losses on balance. Discount Houses encountered scattered selling. Cater Allen lost 10 to 425p and Gerrard National shed 7 to 265p. Clive gave up 2 to 33p.

Composite Insurances recovered from early weakness to close with minor falls. General Accident, which announced a vendor placing of 14.3m shares on Monday to finance the acquisition of Canada's Pilot Insurance, were finally 2 cheaper at 730p, after 721p. Among Life issues, Britannic lost 9 to 828p following slightly disappointing new business figures. Abbey Life shed 6 to 207p on profit-taking. Lloyd's brokers displayed a firm spot in Sedgwick which attracted support in front of tomorrow's third-quarter figures and firmed 4 to 372p.

Apart from Guinness, which reacted 11 to 307p on nervous offerings ahead of next Tuesday's preliminary results, leading Breweries proved to be relatively resilient. Distillers fell 6 more to 487p as the delay in the Department of Trade's decision regarding the possible reference to the Monopolies Commission of Argyll Group's offer accentuated recent nervousness. Argyll closed 3 cheaper at 347p.

Leading Buildings, firm of late reflecting optimistic forecasts for the sector, turned easier as interest rate worries resurfaced. Recently-firm Barratt Developments ran back 6 to 126p, while Costain lost the same amount to 472p. Tarmac were finally 8 lower at 378p and BPB Industries 5 off at 360p. RMC remained overshadowed by reports that the company's pricing policy was under investigation and shed 8 more to 450p. Elsewhere, Bett Brothers, at 80p, lost a penny of the previous day's Press-inspired gain of 9 following news that Scottish Heritable had sold its entire stake.

ICI eased to 755p initially before light support left the close 4 dearer on balance at 764p. Elsewhere in the Chemical sector, Allied Colloids continued to benefit from favourable Press comment and added 3 more to 180p, while potential "shell" situation British Benzol revived strongly and touched 64p prior to closing a net 4 up at 63p.

Stores weak

Leading Retailers attracted considerable selling as fresh worries over domestic interest rates unsettled confidence. Quotations edged a shade off the lowest after-hours but losses still ranged to over 30. Gussies A were hardest hit and dipped 33 to 777p, while Woolworth, 515p, and Burton, 537p, fell 20 to 15 respectively. News that the proposed merger has been declared unconditional failed to aid either Habitat Mothercare, 30 off at 430p, or British Home Stores, 22 lower at 310p, after 306p. Dixons closed 24 cheaper at 880p.

In contrast, secondary Stores displayed a number of outstanding gains, most of which were directly attributable to company trading statements. Asprey, the jewellers, touched 498p before settling 48 high on balance at 488p in response to substantially increased interim profits and dividend. Pepe closed 11 up at 96p after revealing a 54 per cent expansion in first-half pre-tax profits; fellow USM member Gabicci rose 11 to 109p in sympathy. Revived speculative demand lifted William Bedford 8 for a two-day advance of 15 to 105p, but Our Price remained friendless and closed 25 off at 525p.

Leading Electricals resisted the downward trend, most quotations showing little alteration on the day. Among secondary issues, BSR, still reflecting recent Press mention, rose to 75p before settling 5 higher on the day at 73p. Elsewhere, DBE Technology rose 12 to 65p.

Westland continued to attract substantial attention; down to 76p at one stage, the shares rallied late following the announcement of improved terms from the European consortium to close unaltered on the day at 83p. Among other Engineering issues, Desoutter made further headway to 185p, up 8. Revived speculative demand left C. H. Bailey 1½ dearer at 26p and Bristol Channel a penny higher at 6½p. TI Group touched 366p before recovering to close only 5 off on balance at 373p.

Food Retailers gave modest ground owing to a lack of support. ASDA-MFI were 4 cheaper at 138p awaiting today's interim results, while J. Sainsbury softened a couple of pence to 372p. Dee Corporation were dull at 263p, down 7, while Bejam lost 3 to 167p. Elsewhere, Fitch Lovell firmed 3 more to 271p following acquisition news, while revived speculative buying left United Biscuits a couple of pence dearer at 229p. Pyke Holdings dipped 15 to 425p; Hillsdown Holdings' offer has been extended until January 20.

Grand Metropolitan met with persistent selling and closed 12 down at the day's lowest of 393p. Ladbroke, however, attracted speculative support and firmed 3 to 330p.

Boots sold

Boots, reflecting a sharp setback in the Store sector, fell away to close around the day's lowest with a fall of 9 at 252p. Among the other miscellaneous industrial leaders, Hanson Trust contrasted with a rise of 5 to 200p, after 204p, on hopes that its bid for SCM will be successful following the favourable US Federal Court ruling preventing Merrill Lynch from exercising its lock-up option. Metal Box eased to 547p before fresh demand took the price up to a close of 558p, up 8 on balance. Pilkington gave up 8 to 330p and Trafalgar House 6 to 338p, but Beecham settled only a penny cheaper at 340p, after 335p. Elsewhere, F. H. Tomkins encountered further profit-taking following comment on the interim figures and gave up 12 to 225p, while the unwinding of speculative positions left Metal Closures 10 down at 134p. Renewed demand in a limited market left Chemring up 28 more at 648p. Speculative activity prompted a rise of 12 to 146p in Ropner and a further gain of 9 to 347p in Brammer. Revived buying lifted Flexello 10 to 102p. Blue Arrow, still reflecting Press mention, improved 5 more to 218p.

Fairline Boats provided an isolated bright spot in the Leisure sector, rising 5 to 125p in reply to a newsletter recommendation.

Publishers bucked the general trend and again displayed modest gains, albeit in thin trading. Associated Newspapers, 5 up at 925p, and Daily Mail A, a fraction firmer at £12¼, continued to improve in front of tomorrow's full-year figures. Buyers also showed fresh enthusiasm for Associated Book, 6 up for a two-day gain of 13 to 218p. United Newspapers, on the other hand, lacked support and finished 7 cheaper at 290p. Paper/Printings, in contrast, trended lower with DRG 3 off at 199p and Bunzl 5 down at 508p. Robert Horne, however, advanced 8 to 163p with the A shares a like amount to the good at 153p, following the increased annual profits and dividend.

The Property leaders' recent strong run faltered with the onset of light selling. Land Securities and MEPC both shed 5 to the common price of 298p. Brixton Estate, a firm market on Monday following an investment recommendation, lost 3 at 153p, but buyers continued to show interest in Sheraton Securities which gained a penny more to 25½p. Elsewhere, Weber Holdings touched 116p prior to closing a net 8 up at 113p on news of the proposed merger with Wellington Estates.

Textiles displayed modest improvements, where changed. Buyers returned for Allied Textile, finally 8 higher at 433p; the preliminary results are scheduled for January 29. Glen Abbey were marked 10 higher to 46p in belated response to news of asset disposals.

Shell rally

The leading oils drifted easier at the outset on lack of interest but steadied in later trading to close with widespread minor falls. Shell dipped to 663p early on but rallied strongly on sustained US interest after-hours to close a net 11 higher at 678p. BP gave up a couple of pence to 555p, as did Britoil, 203p and Enterprise Oil, 144p. Burmah remained an active market and eased to 275p in mid-morning before improving strongly late to end the day a further 8 better at 284p — a two-day rise of 17.

In a generally easier secondary oils sector Goal Petroleum retreated 4 more to 38p and the "new" a similar amount to 7p premium.

Takeover speculation and buying ahead of the preliminary results expected at the end of the month gave a further boost to Lonrho which advanced 9 more to 215p; dealers also reported substantial traditional and traded options business in the company's shares.

De Beers up again

Another powerful performance by De Beers, plus strong showings by golds and platinums ensured a marked increase in turnover in mining markets.

De Beers continued their recent good run and jumped 15 more to 378p — a five-day gain of 60 — ahead of the better-than-expected 1985 world diamond sales figure.

Golds recorded impressive gains and raced ahead for the sixth consecutive trading session on the back of renewed strong demand from Johannesburg and the Continent. The major buying on the Continent emanated from Switzerland and was directed towards the top-quality issues. South African sources were keen buyers of the more marginal stocks. In the former group gains ranged up to a point and more in Randfontein, £51½ and Southvaal, £23¼ while other firm features included Driefontein, up ¾ at £11½ and Western Holdings, a similar amount to the good at £15¼.

The Gold Mines index advanced 9.8 more to 277.2, extending the rise over the past six trading sessions to one of 37.4.

Platinums rose strongly in the wake of the platinum price which responded positively to news of the mass sackings of mineworkers at Impala Platinum following a pay dispute. Impala jumped 62 to 612p despite reports of Johannesburg switching from Impala to Rustenburg; the latter settled 46 firmer at 546p.

London-registered Financials moved narrowly in initial dealings but picked up well during the afternoon. Rio Tinto-Zinc ended the session 9 firmer at 522p and Consolidated Gold Fields edged up 4 to 459p. East Rand Consolidated remained a firm market and added a like amount to 45p.

A buoyant South African Financial sector showed Gencor 68 up at 680p and "Johnnies" 23 firmer at £54 reflecting their platinum interests, while the strong performances by Golds encouraged persistent support for "Amgold," £4 to the good at £46¼, Anglo American Corporation, which advanced 40 to 820p and Gold Fields of South Africa, 34 up at 815p.

Traded Options

Another relatively lively session in Traded Options resulted in 14,042 contracts struck, comprising 11,174 calls and 2,868 puts. For the fourth successive day, business was dominated by Lonrho, which attracted 2,837 calls, 740 of which were transacted in the February 200's and 315 in the February 200's puts. Hanson Trust positions were also in demand and finally contributed 1,355 calls, the March 180's and 200's accounting for 600 and 492 trades respectively.

TRADITIONAL OPTIONS

First Dealings	Last Dealings	Last Declaration	For Settlement
Jan 6	Jan 17	Apr 10	Apr 21
Jan 20	Jan 31	Apr 24	May 6
Feb 3	Feb 14	May 8	May 19

For rate indications see end of Unit Trust Service

Call options were taken out in Sears, Ward Holdings, North Kalgurli, Newman Industries, Wimpey Hawley, Thomas Walker, Lonrho, Pavion, Sunleigh, County Properties, A'ace Investments, STC, Henry Wigfall, Burns-Anderson, MIM Holdings, Peerless, CRA, Combined Technologies, Ladies Pride, Laura Ashley, AB Electronic and Beecham. No puts were reported, but doubles were taken out in Sears and NSS Newsagents.

FINANCIAL TIMES STOCK INDICES

	Jan. 7	Jan. 6	Jan. 3	Jan. 2	Dec. 31	Dec. 30	A year ago
Government Secs	81.79	82.15	82.51	82.79	82.81	82.93	81.49
Fixed Interest	88.15	88.51	88.73	88.89	88.76	88.78	88.22
Ordinary ♥	1135.3	1141.8	1149.6	1138.5	1131.4	1133.0	971.2
Gold Mines	277.2	267.4	257.5	257.5	249.8	246.0	456.2
Ord. Div. Yield	4.37	4.34	4.32	4.36	4.38	4.38	4.45
Earnings Yld. % (full)	10.86	10.80	10.75	10.84	10.89	10.88	11.33
P/E Ratio (net) (*)	11.36	11.43	11.48	11.39	11.33	11.34	10.60
Total bargains (Est.)	25,562	23,856	19,440	17,926	16,579	16,211	25,657
Equity turnover £m.	—	465.77	360.86	259.10	230.91	290.69	300.46
Equity bargains	—	27,244	19,869	14,898	16,651	16,431	25,750
Shares traded (ml)	—	247.2	191.0	145.0	134.9	109.0	263.4

♥ 10 am 1133.4. 11 am 1132.0. Noon 1134.2. 1 pm 1135.0. 2 pm 1134.8. 3 pm 1133.9. 4 pm 1134.3. Day's High 1136.2. Day's Low 1131.2. Basis 100 Government Securities 15/10/26. Fixed Interest 1928. Ordinary 1/7/35. Gold Mines 12/9/55. SE Activity 1974. Latest Index 01-246 8026. *Nil=10.95.
† Correction.

HIGHS AND LOWS

	1985/6 High	1985/6 Low	Since Compilat'n High	Since Compilat'n Low
Govt. Secs.	84.67 (18/10/85)	78.02 (28/1/85)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Int.	90.98 (25/10/85)	82.17 (28/1/85)	150.4 (28/11/47)	50.53 (3/1/75)
Ordinary	1149.6 (6/1/86)	911.0 (6/12/85)	1149.6 (6/1/86)	49.4 (26/6/40)
Gold Mines	556.9 (15/4/85)	217.6 (5/11/85)	734.7 (15/2/83)	43.5 (26/10/71)

S.E. ACTIVITIES

INDICES	Jan. 6	Jan. 3
Daily		
Gilt Edged Bargains	133.8	106.6
Equities Bargains	176.5	129.4
Equities Value	921.2	728.2
5 day Average		
Gilt Edged Bargains	96.3	77.7
Equities Bargains	122.3	96.2
Equities Value	617.2	479.6

YESTERDAY'S ACTIVE STOCKS

Above average activity was noted in the following stocks yesterday.

Stock	Closing price	Day's change
Asprey	488	+48
Brt. Home Stores	310	−22
Burmah Oil	284	+ 8
Burton	537	−15
Dixons Group	880	−24
GUS A	777	−33
Habitat Mothercare	430	−30
Jaguar	362	+ 1
Land Securities	298	− 5
[illegible]	[illegible]	[illegible]
Pepe	96	+11
Sears	107½	− 5
Woolworth	515	−20

MONDAY'S ACTIVE STOCKS

Based on bargains recorded in Stock Exchange Official List.

Stock	No. of changes	Mon. close	Day's change
ICI	17	760	− 5
Beecham	16	341	−12
Sears	16	112½	− 1
Pilkington Bros.	15	338	+ 1
Burmah Oil	14	276	+ 8
Imperial Grp.	14	248	−10
Grand Met.	13	405	− 6
Reuters B	13	355	− 4
Utd. Biscuits	13	227	−10
Distillers	12	493	− 2
Reed Intl.	12	685	− 5
Tomkins (F.H.)	12	237	− 5

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Tues Jan 7 1986 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (ACT at 30%)	Est. P/E Ratio (Net)	xd adj. 1986 to date	Mon Jan 6 Index No.	Fri Jan 3 Index No.	Thurs Jan 2 Index No.	Year ago (approx.) Index No.
[illegible]										

FIXED INTEREST

PRICE INDICES	Tues Jan 7	Day's change %	Mon Jan 6	xd adj. today	xd adj. 1986 to date
[illegible]					

AVERAGE GROSS REDEMPTION YIELDS	Tues Jan 7	Mon Jan 6	Year ago (approx.)
[illegible]			

BRITISH GOVERNMENT INDEX-LINKED STOCKS

†Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, the Financial Times, Bracken House, Cannon Street, London, EC4P 4BY, price 15p, by post 28p.

EUROPEAN OPTIONS EXCHANGE

Series	Feb. Vol.	Feb. Last	May Vol.	May Last	Aug. Vol.	Aug. Last	Stock
[illegible]							

TOTAL VOLUME IN CONTRACTS: 68,170
A=Ask B=Bid C=Call P=Put

RECENT ISSUES

EQUITIES

Issue price p	Amount paid up	Latest Renunc. date	1985/6 High	1985/6 Low	Stock	Closing price p	+or−	Net Div.	Times covered	Gross Yield	P/E Ratio
[illegible]											

FIXED INTEREST STOCKS

Issue price £	Amount paid up	Latest Renunc. date	1985/6 High	1985/6 Low	Stock	Closing price £	+or−
[illegible]							

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renunc. date	1985/6 High	1985/6 Low	Stock	Closing price p	+or−
[illegible]							

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimates. g Assumed dividend and yield. F Forecast dividend cover on earnings updated by latest interim statement. H Dividend and yield based on prospectus or other official estimates for 1986. [illegible]

NEW HIGHS AND LOWS FOR 1985/86

NEW HIGHS (67)

[illegible]

NEW LOWS (39)

[illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	—	107	2
Corpns. Dom. & Foreign Bonds	[illegible]	[illegible]	[illegible]
Industrials	234	414	854
Financial & Props.	64	226	309
Oils	14	46	58
Plantations	[illegible]	[illegible]	[illegible]
Mines	79	19	86
Others	[illegible]	[illegible]	[illegible]
Totals	433	845	1,436

LONDON TRADED OPTIONS

Option	Calls Jan.	Calls Apr.	Calls July	Puts Jan.	Puts Apr.	Puts July
[illegible]						

Option	Calls Feb.	Calls May	Calls Aug.	Puts Feb.	Puts May	Puts Aug.
[illegible]						

Option	Calls Mar.	Calls June	Calls Sept.	Puts Mar.	Puts June	Puts Sept.
[illegible]						

Option	Calls Jan.	Calls Feb.	Calls Mar.	Calls Apr.	Puts Jan.	Puts Feb.	Puts Mar.	Puts Apr.
[illegible]								

January 7 Total contracts 14,042 Calls 11,174 Puts 2,868 *Underlying security price

WORLD STOCK MARKETS

FRANCE (continued)

Jan. 7	Price Frs.	+ or −
Pernod Rica	885	−15
Perrier	510	......
Petroles Fra.	292	+2
Peugeot S.A.	541	−5
Printemps (Au.)	464	−5.9
Radiotech	472	−23
Redoute	1,925	+110
Roussel-Uclaf	1,680	+80
Sefimeg	405	−8
Skis Rossignol	1,421	−9
Telemec Elect	2,880	−19
Thomson (CSF)	869	−11
Valeo	359.9	15.1

NETHERLANDS (continued)

Jan. 7	Price Fls	+ or −
Ommeren (Van)	36.50	−0.5
Pakhoed	91.5	−1.0
Philips	61.70	−1.4
Robeco	85.9	−0.1
Rodamco	154.1	−0.4
Rolinco	74.4	−0.2
Rorento	46.6	−0.1
Royal Dutch	176.80	+1
Unilever	410.30	−2
VMF Stork	285.50	−3.5
VNU	524.50	−1.5
Wessanen	270	−2.5
West Utr Bank	92.0	−0.5

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. ex Ex all. * Price in Schillings.

AUSTRALIA (continued)

Jan. 7	Price Aust $	+ or −
Aust. Nat. Ins.	5.0	+0.15
APM	3.12	+0.02
Bell Group	7.08	−0.02
Bell Res.	6.0	+0.1
Bond Corp Hldgs	1.92	+0.08
Boral	3.35	......
Bougainville	1.95	......
Brambles Inds	4.4	−0.05
Bridge Oil	2.12	+0.02
B. H. Prop.	8.9	−0.06
CRA	5.88	+0.12
CSR	3.70	......
Coles (G.J.)	4.38	−0.02
Comalco "A"	1.95	−0.05
Consolidated Pet	0.24	+0.01
Costain Aust.	2.2	......
Dunlop Olympic	2.65	+0.05
Elders IXL	3.02	−0.05
Energ Res.	1.62	−0.05

CANADA

TORONTO

Prices at 2.30pm January 7

Sales	Stock	High	Low	Close	Chng
150	Vestgron	340	340	340	
5050	Vulcan Ind	275	270	275	+5
100	Wajax A	$16¾	16¾	16¾	
85820	Walker H	$31⅞	31⅜	31⅝	−⅜
14500	Walburne	$17¼	17⅛	17¼	+¼
17675	Wcoast T	$17½	17¼	17½	
5000	Westmin	$11⅞	11⅜	11⅜	+⅛
915	Weston	$103	101¾	103	+1¼
5500	Woodwd A	$7⅛	7⅛	7⅛	
1100	Yk Bear	$6⅞	6¾	6¾	

F—No voting rights or restricted voting rights.

MONTREAL

Closing prices January 6

Sales	Stock	High	Low	Close	Chng
154271	Bank Mont	$33½	32¾	32⅞	−¾
6710	BombrdrA	$14⅝	14½	14⅝	−⅛
42489	BombrdrB	$14¾	14¼	14⅝	+⅛
1650	CB Pak	$23¼	23¼	23¼	
23715	Cascades	$11¼	10⅞	11⅛	
57397	ConBath	$18¾	18⅜	18½	−⅛
26776	DomTxtA	$14⅞	14¾	14¾	
41351	Gaz Metro	$11¾	11⅝	11⅝	
7810	MntTrst	$16⅛	16	16	−¼
219927	NatBk Cda	$24⅛	23¾	23⅞	−⅜
18840	Power Corp	$22¼	21¾	21¾	
27621	Provigo	$16½	16	16	−⅛
51243	Royal Bank	$33⅜	32⅞	33	−⅜
475	RoyTrstco	$23½	23¼	23¼	−¼
10870	SteinbrgA	$36	35½	36	−½

Total Sales 3,469,344 shares

Indices

NEW YORK

Advances 1,276 Declines 486

TORONTO	Jan 7	Jan 6	Jan 3	Jan 2	1985/86 High	1985/86 Low
Metals & Minls	2,101.3*	2,095.3	2,070.8	2,067.1	2190.7 (13/2/85)	1740.82 (31/10/85)
Composite	2,871.5*	2,867.2	2,881.4	2,881.5	2900.6 (31/12/85)	2348.5 (8/1/85)
MONTREAL Portfolio	140.11*	139.88	140.6	140.81	142.87 (17/12/85)	117.88 (4/1/85)

* Indicates pre-close figure

** Saturday January 4: Japan Nikkei 13,136.9. TSE 1,049.13.

Base value of all indices is 100, except: JSE Gold—255.7.; JSE Industrial—264.3; Australia All Ordinary and Metals—500; NYSE All Common—50; Standard and Poors—10; and Toronto Composite and Metals—1,000. Toronto Indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.

LONDON

Chief price changes (In pence unless otherwise indicated)

RISES		
Anglo Am Gold	£46½	+4½
Asprey	488	+48
BSR Intl	73	+5
Brit Benzol	63	+4
Burmah Oil	284	+8
Gabicci	109	+11
Hanson Trust	200	+5
Horne (Rob)	163	+8
Lonrho	215	+9
Pepe	96	+11
Ropner	146	+12
Rustenburg Plat	546	+46
Weber Hldgs	113	+8
FALLS		
Ex 10¼% Cnv 1989	£37¾	−⁵⁄₁₆
Tr 11¾% 2003/07	£106⅞	−⅝
Barclays	459	−13
Barratt Dev	126	−6
Boots	252	−9
Brit Home St	310	−22
Grand Met	393	−12
GUS A	777	−33
Guinness	307	−11
Habitat-Mother	430	−30
Hawker Siddeley	455	−10
Matthews (B)	525	−25
Metal Clos	134	−10
Petranol	90	−15
RMC	450	−8
Tomkins (F H)	225	−12
Tricentrol	130	−6

NORTH AMERICAN QUARTERLIES

INTERCO
Clothing, furnishing + retailing

Third quarter	1985-86 $	1984-85 $
Revenue	694.7m	698.8m
Net profits	27m	8.3m
Net per share	1.71	0.54
Nine months		
Revenue	1.93bn	2.04bn
Net profits	61.4m	52.2m
Net per share	3.89	3.18

QUICK AND REILLY
Discount brokerage

Third quarter	1985-86 $	1984-85 $
Revenue	17m	15.5m
Net profits	2.7m	2.2m
Net per share	43	35
Nine months		
Revenue	51.4m	45.2m
Net profits	8.2m	5.8m
Net per share	1.29	0.91

RITE AID
Drug stores

Third quarter	1985-86 $	1984-85 $
Revenue	389m	345.8m
Net profits	14.2m	15.5m
Net per share	0.34	0.38
Nine months		
Revenue	1.14bn	985m
Net profits	37.6m	43.7m
Net per share	0.91	1.06

WALGREEN
Drug stores

First quarter	1985-86 $	1984-85 $
Revenue	817.7m	715.2m
Net profits	17.2m	15.6m
Net per share	0.28	0.25

OVER-THE-COUNTER *Nasdaq national market, 2.30pm prices*

Continued from Page 33

Stock	Sales (Hnds)	High	Low	Last	Chng
OgilGp 1.08	385	44½	44	44¼	−¼
HayEn .24	93	23¼	22¾	23¼	+¼
RediCr	348	2⅛	2	2⅛	+3-16
Readng	79	22⅜	22⅛	22¼	+⅛
Recotn	224	12	11½	12	+½
SoftwA	395	17⅜	[illegible]	[illegible]	[illegible]
SonocPs .68a	51	29¾	[illegible]	[illegible]	[illegible]
SonrFd .60e	101	16¾	[illegible]	[illegible]	[illegible]
SoHosp	99	4½	[illegible]	[illegible]	[illegible]
RAX .01e	151	7	6⅞	7	+ ⅛
RPM .62	749	19¼	18¾	19	+½
RadSys	208	14¾	14⅛	14⅝	+⅛
RadnT	93	10¾	10½	10½	−¼
Radion	9	7¼	7¼	7¼	+½
Ragen	208	3½	3 3-16	3⅜	
Rainrs 1	325	34¾	34⅜	34¾	+¼
Sizzlers	196	16¾	16½	16⅝	+¼
Skipper .08	71	10¼	9⅞	10	−⅛
SmithL	1290	3	2⅞	3	
Society 1.84	294	55¾	54½	55	+⅜
SocySv	384	27¼	26⅝	27	+⅛
Softech	271	10¾	10¼	10⅝	+⅛
UTL	84	15¼	15	15	−⅛
Ultrsy .06e	308	9	8½	9	+½
Ungmn	675	15⅛	14⅞	15⅛	+¼
Unitil	1425	14¼	14	14¼	+⅛
UnPlntr 1.08t	101	30	29¼	29¾	−¼
UACms .06	473	27	26⅞	27	
Ziegler .48a	5	13¾	13¾	13¾	−¼
ZionUt 1.36	25	45	44½	44½	−⅛
Zitel	14	3¼	3⅛	3¼	
Zlyad	133	6⅜	6¼	6¼	+⅛
Zondvn	91	13¾	13½	13⅝	+⅜
Zymos	265	2½	2 5-16	2⅜	−3-16

Prices at 3pm, January 7

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
27⅝	16	AAR	.58	2.0	17	828	27½	27	27⅜	+⅛
24⅝	10¼	AGS			19	187	24½	24⅛	24¼	
15⅜	9⅞	AMCA				10	11¼	11¼	11¼	+⅛
50¼	33½	AMR			7	3059	41⅛	40	40⅞	+1
24¾	18⅝	AMR pf2.18		9.2		5	23⅝	23⅝	23⅝	+¼
11¾	7⅝	APL			5	2	10¼	10¼	10¼	
16¾	9⅝	ARX			14	46	14¼	14⅛	14¼	
55⅝	32¾	ASA	2a	5.4		781	36⅞	35½	36⅞	+1⅝
27	10½	AVX		2.2		169	14¼	14¼	14¼	+⅝
28⅛	20⅝	AZP	2.72	9.9	8	2123	27⅝	26⅞	27⅜	+½
72	38⅞	AbtLab 1.40		2.0	19	1136	69½	68¼	69½	+1⅛
26⅝	19⅝	AccoWd .50		1.9	20	149	u26⅞	26½	26⅞	+⅝
24¾	10	AcmeC .40		2.7	21	244	14⅞	14⅛	14¾	+⅝
10½	7	AcmeE .32b		3.8	13	2	8⅝	8⅝	8⅝	+⅛
19¾	15½	AdaEx 1.92e		9.8		107	19¾	19⅝	19½	
23¾	14	AdmMl .40		1.8	9	29	22¼	21⅞	21⅞	−⅛
18⅝	8¾	AdvSys .36t		6.0	15	139	17⅝	16⅞	17	−¼
36⅝	22⅛	AMD			43	4250	29	28¾	29	+1
12⅝	10⅝	Adobe n				251	12⅝	12⅛	12⅝	+¼
18	14⅝	Adob pf1.84		10.		44	u18¼	18	18¼	+¼
18	15¼	Adob pf2.40		13.		17	u18⅛	18	18⅛	+¼
14⅝	7¾	Advest .12a		.9	19	348	13⅞	13½	13½	−⅞
53½	36¼	AetnLf 2.64		4.9	16	2718	u54⅞	53⅝	54⅛	+⅞
57½	52½	AetL pf5.19e		9.7		311	53½	53⅜	53⅝	
50¼	24⅝	Ahmns 1.20		2.3	9	2666	u53½	50¼	53⅛	+2⅞
3⅝	2½	Alleen				412	3⅝	3⅜	3½	−⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 33

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NYSE COMPOSITE PRICES

Continued from Page 32

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge
62½	38¾	Wolwth	2	3.4	12	1437	59¼	58⅝	59¼	+⅞
5⅝	2¾	WrldAr				10	3⅞	3¾	3⅞	
95	57½	Wrigly 1.80a		2.0	15	15	93	92	92¼	−¼
4¾	2⅞	Wurltzr				66	3¼	3⅛	3⅛	
16	10⅝	WyleLb .32		2.1	66	285	15¼	14⅝	15¼	+¾
23⅝	15½	Wynns	.60	3.5	13	32	17½	17⅜	17⅜	
		X Y Z								
60½	37¼	Xerox	3	5.0	20	2389	60¼	59⅛	60⅛	+1
56¼	48¾	Xerox pf5.45		10.		826	54¾	54⅜	54⅜	+¼
30¼	24⅝	ZaleCp 1.32		4.5	13	52	29½	29⅛	29⅛	−¼
17	6⅞	Zapata	.12	1.4	62	327	8¾	8½	8⅝	+⅛
66⅛	33⅛	Zayre s	.48	.8	18	323	60	58⅝	59⅞	+⅛
25	16¼	ZenithE				1000	894	20¼	19¾	20 +⅜
23⅝	17¼	Zero s	.32	1.4	19	153	23	22½	22½	−½
41½	26	Zurnln 1.32		3.5	14	214	38⅝	37⅞	38	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a–dividend also extra(s). b–annual rate of dividend plus stock dividend. c–liquidating dividend. cld–called. d–new yearly low. e–dividend declared or paid in preceding 12 months. g–dividend in Canadian funds, subject to 15% non-residence tax. i–dividend declared after spilt-up or stock dividend. j–dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k–dividend declared or paid this year, an accumulative issue with dividends in arrears. n–new issue in the past 52 weeks. The high-low range begins with the start of trading. nd–next day delivery. P/E–price-earnings ratio. r–dividend declared or paid in preceding 12 months, plus stock dividend. s–stock split. Dividends begins with date of split. sls–sales. t–dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u–new yearly high. v–trading halted. vi–in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd–distributed. wi–when issued. ww–with warrants. x–ex-dividend or ex-rights. xdis–ex-distribution. xw–without warrants. y–ex-dividend and sales in full. yld–yield. z–sales in full.

AMEX COMPOSITE PRICES

Prices at 3pm, January 7

OVER-THE-COUNTER

Nasdaq national market, 2.30pm prices

Continued on Page 31

FINANCIAL TIMES
WORLD STOCK MARKETS

WALL STREET
Spurred by interest rate optimism

RENEWED optimism over interest rates swept Wall Street stocks higher yesterday, *writes Terry Byland in New York.*

Buying programmes by major brokerage firms sparked off a broadly based advance which was led by banks, utilities and technology stocks. A recovery in airline issues reflected hints of further cuts in world oil prices.

The bond market rose by three quarters of a point as it moved confidently into the auction of $6.5bn of seven-year Treasury securities. Treasury bills remained steady but the outcome of Monday's bill sale confirmed hopes of an early cut in the federal discount rate.

At the close the Dow Jones industrial average was up 18.12 at 1,565.71.

The spurt in stock prices caught many investors wrong-footed, drawing in many who had been expecting a lull in the equity market, which would offer opportunities for cheap buying.

But the new year has brought investment programmes from the mutual and pension funds, swollen by the individual retirement accounts of private investors. Municipal bonds, favoured by private investors, surged on Monday, calming credit market nervousness ahead of this week's heavy federal funding programme.

Among interest-rate sensitive stocks, utilities were featured by a $⅞ gain to $40⅞ in Consolidated Edison, the New York power supply company and of $⅛ to $32⅛ in Public Service Electric & Gas.

Also strong were banks, which have kept prime lending rates steady as money market rates have weakened. Bankers Trust jumped $1⅞ to $75¼, Chase Manhattan $2½ to $75⅞ and J. P. Morgan $1⅜ to $65½. BankAmerica, however, eased $¼ to $15½ after a brokerage house reduced its earnings forecast.

Great Western Financial, $1⅜ up at $35⅞, starred in the thrift sector, which also responded vigorously to hopes of lower rates.

The industrial sector, was led by technology stocks, with Digital Equipment another $2 up at $135⅞ after Salomon Bros recommended the stock. Honeywell gained $1⅛ to $73½ and Burroughs $1 to $63⅞. At $155¾, IBM climbed $1 in brisk trading, to approach its recent peak.

Tobaccos strengthened after R.J. Reynolds forecast record profits for 1985. Reynolds moved up $⅝ at $32⅝.

Airline stocks, torn between fears of a fare-cutting war and hints that oil prices could soon dip below $20 a barrel, took the more optimistic view. American rose $1⅛ to $41 and Delta $⅞ to $39⅝.

But the outstanding feature was the heavy speculative buying of Pan Am, up $⅝ to $8 as takeover rumours returned in force. Another takeover favourite, Northwestern Air gained $¾ to $45⅛.

On the international takeover front, stock in SCM jumped $2½ to $74¾ in early trading, as Hanson Trust of the UK apparently consolidated its bid victory after a court blocked attempts by the Merrill Lynch group to defeat the British bidder. SCM stock is now well above the Merrill offer, and in line with the Hanson terms.

Merrill Lynch, the largest US retail broker, was itself again a target of bid gossip, despite denials by both Chrysler and Merrill. Turnover in the broker was heavy, with the price $¼ off at $36.

With lower US interest rates expected to renew downward pressure on the dollar, selected pharmaceutical issues moved up. Pfizer, a notable beneficiary of a lower dollar, gained $1⅜ at $51¾, while others to the fore included Upjohn, $⅝ higher at $128⅛.

In the credit market, bonds showed renewed strength as the auction of seven-year Treasury securities opened. The yield on the key long bond dipped to 9.22 per cent, signalling an expected yield of around 9 per cent at the seven-year auction. Federal funds eased below 8 per cent, and there were small falls in Treasury bill rates.

EUROPE
Foreigners overwhelm Frankfurt

HORDES OF FOREIGN buyers overwhelmed the Frankfurt stock exchange yesterday and forced bourse authorities to extend the trading session by half an hour, the first such move in post-war Germany.

The more remarkable thing was that most of the buying support was for Volkswagen, which soared DM 30 to a record DM 552 after Monday's DM 22.50 jump on the apparent rekindling of rumours that the leading European car group had increased its chances of winning a significant order for an engine plant in the Soviet Union.

Other leading car stocks, which have been fundamental in taking the West German bourses to successive all-time peaks, benefited from VW's dazzling performance. BMW reversed early softness into a DM 2 gain to close at DM 602.

The shadow of Flick reappeared with today's settlement for the 3.4m Daimler shares, but just to further confound the market the quality car group's shares did not fall as expected but finished DM 8 higher at DM 1,308.

Hectic buying was also evident in Metallgesellschaft which soared DM 42.50 to DM 400, while Linde managed a DM 9 gain to DM 657.

Allianz lost DM 93 to DM 2,357 after its denial that it had plans for a capital increase. Associate insurer Munich Re sprinted DM 90 to a record DM 3,500.

Other financials continued to suffer profit-taking pressure with Deutsche Bank marked DM 16.50 lower to DM 890.50, while Commerzbank eased DM 9 to DM 358.

Stores continued to be buoyed by prospects of higher consumer spending this year with Kaufhof DM 13 dearer at DM 375 and Karstadt DM 3 up at DM 350.

The Commerzbank index fell 19.0 to 2,029.9.

The dramatic surge in stock volume – now estimated at nearly DM 1bn a day – spilled over into the bond market where longs gained up to 35 basis points and shorts moved between losses of 10 basis points and rises of 5 basis points.

The Bundesbank sold DM 60.3m worth of paper after buying DM 24.8m on Monday.

A retreat by foreign investors from **Amsterdam** continued to hit prices, forcing falls of up to 15 per cent in places. The ANP-CBS General index dipped 4.8 to 261.1. Bonds were largely unchanged.

Philips suffered the most among internationals with a Fl 1.40 drop to Fl 61.70, while KLM moved against the trend with a Fl 1 gain to Fl 58

The recovery in **Brussels** evaporated as low turnover produced a hesitant performance.

Heavy turnover volume and persistent profit-taking were the hallmarks of a weaker **Paris** and **Zurich.**

Milan, partly refreshed from a three-day holiday, turned lower while **Madrid** was buoyed in light trading.

Stockholm hit a peak with all the attention on Fermenta's planned purchase of stakes in competitors giving it a significant position in the Swedish pharmaceuticals industry. Pharmacia, Fermenta, Sonesson, Gambro, Leo and Nils Dacke were suspended pending today's announcement of the details of the plan.

CANADA

BANKS and other interest-rate sensitive issues in Toronto continued to be depressed by Tuesday's ½ percentage point rise in Canadian prime lending rates.

Bank of Nova Scotia fell C$⅛ to C$13⅜, Royal Bank dropped C$⅜ to C$32⅜ and Canadian Pacific was off C$⅛ at C$18⅝.

In Montreal industrials made some slight gains but other sectors tended lower.

SOUTH AFRICA

A COMBINATION of profit-taking and a stronger rand clawed at any gains golds may have made but most other issues in Johannesburg tended to firm slightly.

Platinums were on centre stage following the strike and dismissals at Impala. Rustenburg gained 75 cents to R28 as platinum reached an 18-month high in London, but Impala shed 50 cents to R31.

TOKYO
Full-blooded conviction on sidelines

THE wait-and-see mood in Tokyo strengthened further yesterday and share prices lost more ground almost across the board, *writes Shigeo Nishiwaki of Jiji Press.*

The Nikkei average slipped below the 13,000 level for the first time since December 21, falling 62.55 to 12,991.24. It lost 120 points at one stage. Trading remained slow at 220m shares, compared with 231m Monday. Losers outnumbered gainers 566 to 238 with 135 issues unchanged.

Resource-related stocks such as oils and non-ferrous metals which gained on Monday, turned down, while small-lot selling pushed down utilities, constructions, blue chips and biotechnologies, although there were no negative factors. Prices managed, however, to recoup nearly half their losses toward the close.

Reluctance of institutional and individual investors to participate in the market was the prime cause of the poor showing. They fear that margin selling by life insurance companies, which was approved by the Finance Ministry this month, may cause the supply-demand situation to deteriorate. The dealing sections of brokerage houses and speculators lacked energy to invigorate the market.

The lack of sentiment in electric power issues spilled over into real estate and railway stocks. Tokyo Electric Power, fifth on the active list with 5.10m shares traded, fell Y80 to Y2,760, Mitsubishi Estate lost Y20 to Y1,150 and Keisei Electric Railway shed Y6 to Y379.

Among resource-related issues, Mitsui Mining remained the busiest stock with 6.74m shares, but closed Y7 lower at Y543 after profit-taking. Mitsui Mining and Smelting dropped Y2 to Y399 and Nippon Oil Y20 to Y829.

Hitachi dipped Y6 to Y764, while NEC and Canon plunged Y30 each to Y1,270 and Y1,090, respectively. TDK suffered an Y80 loss to Y4,270.

Kaken Pharmaceutical plummeted Y120 to Y2,560 and Green Cross Y40 to Y2,010.

On the otherwise gloomy market, small-lot buying pushed up Yamanouchi Pharmaceutical by Y50 to Y3,050. Kyowa Hakko finished Y7 higher at Y987, while Fujiya and Taihei Kogyo scored daily limit gains of Y200 and Y105, respectively, to Y2,930 and Y1,100 on rumours of massive buying by speculators.

On the bond market, sell orders exceeded buy orders in the absence of fresh buying factors. The yield on the 6.2 per cent government bond maturing in July 1995, which has recently been favoured by investors, rose from 5.635 per cent Monday to 5.675 per cent, while that on the benchmark 6.8 per cent government bond due in December 1994 went up to 5.720 per cent from 5.680 per cent. Interest rate cuts in Japan and the US expected this month had already been discounted and investors kept away from the market.

LONDON

THE THREAT of more expensive money continued to undermine confidence in London yesterday. The key three-month interbank rate rose to 12 per cent and this was seen to endanger the current level of UK base lending rates, at 11½ per cent since end-July.

Blue chips encountered early selling but made a late modest recovery after the appearance of cheap buyers. Interest-rate sensitive retail stores, however, ran into aggressive liquidation. Gilts, too, had another poor day.

The FT Ordinary share index ended 6.5 down at 1,135.3.

Chief price changes, Page 31; Details, Page 30; Share information service, Pages 28–29

AUSTRALIA

INDUSTRIALS rose on indications that domestic interest rates were set to fall and other shares in Sydney benefited from the buoyant mood.

The signs were confirmed late in the day when Westpac Banking Corp lowered its prime rate by ½ percentage point to 20.5 per cent.

Large parcels of Comsteel Vickers were sold in the wake of shareholders agreeing to accept an ANI takeover bid. Comsteel was steady at A$1.35.

Miners, oil and gas and banking issues were mixed while gold stocks were firmer.

SINGAPORE

INSTITUTIONS were moderately active in Singapore yesterday sending prices higher across a broad front.

The Straits Times industrial index put on 9.20 to 630.48 on turnover up at 10.9m from the previous session's 9.2m.

Singapore Airlines was again the most active stock and continued to rise, adding 32 cents to S$4.80.

HONG KONG
Unexpected dash to fresh peaks

INTEREST from institutions injected spirit into Hong Kong yesterday after a quiet morning session, and the Hang Seng index bounded across the 1,800 barrier to its highest-ever level, *writes David Dodwell in Hong Kong.*

The index rose 18.94 points to end the day at 1,815.53. The previous record high of 1,810.20 was recorded on July 17, 1981. Since then, a property market collapse, followed by political uncertainty during secret Sino-British negotiations over the future of Hong Kong after 1997, has swept the index twice below 700 points.

Since the successful completion of these talks at the end of 1984, share prices in Kong Kong have risen steadily, making the exchange one of the world's best performing markets in 1985.

Market analysts attributed no particular reason for yesterday's rally. The mood since Christmas has nevertheless been generally bullish, with investment interest reported both locally and from overseas. Hong Kong's stock markets traditionally rally ahead of the Chinese new year, which this year falls on February 8, so operators are talking of the index rising close to the 2,000 level in the coming months.

Some brokers said that the market sentiment was bullish as investors expected the bigger companies to report high 1985 profit growth in the next reporting season.

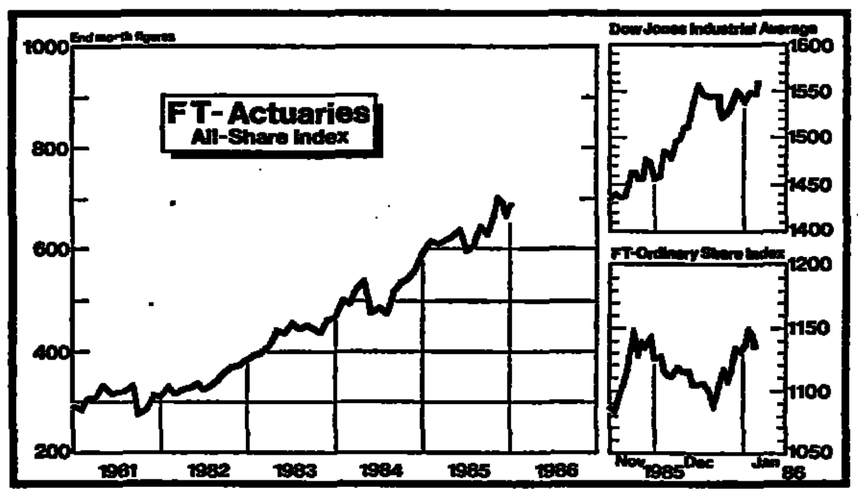
Utilities such as China Light and Power, up 10 cents at HK$16.20, and Hongkong and China Gas, 10 cents ahead at HK$14.70, were the day's strongest performers, with properties such as Li Kashing's Cheung Kong, 30 cents firmer at HK$21.80, not far behind.

Elsewhere in utilities, Hongkong Telephone gained 20 cents to HK$10.60, and Hongkong Electric 5 cents to HK$8.75.

The laggards of the day were financial stocks, which have been consistently less popular over the past year. Among banks, Hang Seng shed 25 cents to HK$48.25 and Hongkong and Shanghai Bank was off 5 cents at HK$8.00.

Sime Darby, which began trading on the Hong Kong exchange yesterday, ended at HK$1.52 compared with the offer price of HK$1.65.

KEY MARKET MONITORS



STOCK MARKET INDICES

NEW YORK	Jan 7	Previous	Year ago
DJ Industrials	1,565.71	1,547.59	1,190.59
DJ Transport	705.72*	697.06	557.02
DJ Utilities	178.60*	176.14	147.21
S&P Composite	213.33*	210.46	164.24
LONDON			
FT Ord	1,135.3	1,141.8	971.2
FT-SE 100	1,415.2	1,424.1	1,229.0
FT-A All-share	685.36	689.86	598.31
FT-A 500	750.78	755.60	657.69
FT Gold mines	277.2	267.4	455.2
FT-A Long gilt	10.59	10.54	10.52
TOKYO			
Nikkei	12,991.24	13,053.79	11,575.50
Tokyo SE	1,033.40	1,040.90	917.04
AUSTRALIA			
All Ord.	1,032.4	1,028.0	715.3
Metals & Mins.	507.9	502.7	393.6
AUSTRIA			
Credit Aktien	120.74	119.6	59.09
BELGIUM			
Belgian SE	2,810.34	2,820.76	2,159.01
CANADA			
Toronto			
Metals & Mins	2,108.3*	2,085.3	1,908.5
Composite	2,871.5*	2,867.2	2,355.3
Montreal			
Portfolio	140.11*	139.88	117.38
DENMARK			
SE	n/a	235.82	158.98
FRANCE			
CAC Gen	278.5	277.3	182.9
Ind. Tendance	106.0	106.7	101.3
WEST GERMANY			
FAZ-Aktien	677.92	682.91	386.65
Commerzbank	2,029.9	2,048.9	1,123.5
HONG KONG			
Hang Seng	1,815.53	1,796.59	1,261.87
ITALY			
Banca Comm.	457.83	460.35	229.87
NETHERLANDS			
ANP-CBS Gen	261.1	265.9	187.5
ANP-CBS Ind	248.0	254.6	149.0
NORWAY			
Oslo SE	397.05	394.98	301.18
SINGAPORE			
Straits Times	630.48	621.28	790.78
SOUTH AFRICA		Prev	Year Ago
JSE Golds	–	1,245.8	917.7
JSE Industrials	–	1,083.3	928.9
SPAIN			
Madrid SE	101.78	100.83	105.15
SWEDEN			
J&P	n/a	1,799.16	1,406.85
SWITZERLAND			
Swiss Bank Ind	612.3	615.3	397.1
WORLD	Jan 6	Prev	Year ago
Capital Int'l	257.1	257.0	184.7

COMMODITIES

(London)	Jan 7	Prev
Silver (spot fixing)	404.80p	404.05p
Copper (cash)	£966.50	£966.50
Coffee (Jan)	£2,937.50	£2,787.50
Oil (spot Arabian Light)	$27.75	$27.75

GOLD (per ounce)

	Jan 7	Prev
London	$329.75	$326.25
Zürich	$330.20	$328.10
Paris (fixing)	$330.40	$329.21
Luxembourg	$329.00	$327.70
New York (Feb)	$332.80	$330.70

CURRENCIES

	US DOLLAR		STERLING	
(London)	Jan 7	Previous	Jan 7	Previous
$	–	–	1.44	1.436
DM	2.4405	2.4475	3.515	3.515
Yen	201.45	201.9	290.0	290.0
FFr	7.48	7.5	10.7725	10.77
SFr	2.067	2.07	2.9775	2.9725
Guilder	2.745	2.7545	3.9525	3.955
Lira	1,662.0	1,667.5	2,393.25	2,394.5
BFr	49.775	50.1	71.7	71.95
C$	1.3993	1.4065	2.013	2.02675

INTEREST RATES

	Jan 7	Prev
Euro-currencies (3-month offered rate)		
£	12 1/16	11 15/16
SFr	4 1/16	4⅝
DM	4⅝	4⅝
FFr	12⅞	13
FT London Interbank fixing (offered rate)		
3-month US$	8 1/16	8⅛
6-month US$	8 1/16	8⅛
US Fed Funds	7 11/16*	7⅝
US 3-month CDs	7.70*	7.75
US 3-month T-bills	7.01*	7.045

US BONDS

Treasury	Jan 7*		Prev	
	Price	Yield	Price	Yield
7¼ 1987	99 27/32	7.98	99 25/32	8.012
9⅝ 1992	104 13/32	8.832	104 [illegible]	8.923
9¼ 1995	103 [illegible]	8.954	102 [illegible]	9.045
9⅞ 2015	106 [illegible]	9.215	105 [illegible]	9.293

Treasury Index

Maturity (years)	Return Index	Day's change	Yield	Day's change
1–30	138.50	+0.34	8.85	–0.04
1–10	134.86	+0.20	8.40	–0.04
1– 3	129.39	+0.08	8.03	–0.03
3– 5	136.76	+0.20	8.56	–0.03
15–30	151.59	+0.80	9.52	–0.08

Source: Merrill Lynch

Corporate	Jan 7*		Prev	
	Price	Yield	Price	Yield
AT&T				
10⅜ June 1990	101⅛	9.90	101⅛	9.90
3⅞ July 1990	86⅞	7.40	86⅞	7.40
8⅝ May 2000	91⅞	9.85	91⅞	9.85
Xerox				
10⅞ Mar 1993	104⅜	9.35	104⅜	9.35
Diamond Shamrock				
10⅞ May 1993	102	10.20	102	10.20
Federated Dept Stores				
10⅜ May 2013	102	10.40	102	10.40
Abbot Lab				
11.80 Feb 2013	111.00	10.55	111.00	10.55
Alcoa				
12⅛ Dec 2012	108⅝	11.25	108⅝	11.25

FINANCIAL FUTURES

CHICAGO	Latest	High	Low	Prev
US Treasury Bonds (CBT) 8% 32nds of 100%				
Mar	85-23	85-24	85-10	84-28
US Treasury Bills (IMM) $1m points of 100%				
Mar	93.19	93.22	93.16	93.14
Certificates of Deposit (IMM) $1m points of 100%				
Mar	92.54	92.57	92.54	92.47
LONDON				
Three-month Eurodollar $1m points of 100%				
Mar	92.24	92.26	92.16	92.17
20-year Notional Gilt £50,000 32nds of 100%				
Mar	109-03	109-11	109-00	109-19

* Latest available figures

SECTION III

FINANCIAL TIMES SURVEY

INVESTING IN BRITAIN

A stable society, improved labour relations and generous incentives have all helped Britain secure the biggest share of overseas investment coming to Europe. As countries worldwide seek new jobs, competition for new projects will continue to be intense

A lion's share

By ANTHONY MORETON, Regional Affairs Editor

JUST OUTSIDE Merthyr Tydfil in the heart of industrial south Wales, on the old road from Cardiff, there is a factory that on high days and holidays flies three flags. Two are, naturally, the Union Flag and the Welsh Dragon; the third is the Japanese.

The factory belongs to Sekisui, one of the Japanese concerns that have been drawn in increasing numbers to Britain. Almost next door to Sekisui is the Hoover factory, where the US electrical products group makes washing machines.

These two are symbolic of the way in which Britain has managed to attract direct investment from overseas. Hoover is a large concern, employing almost 3,000 people and has been established in Merthyr for many years. Sekisui is probably the smallest Japanese concern in the UK, employing fewer than 50 people, and a relatively recent entrant to the area.

The flow of inward investment that these companies represent, shows no signs of drying up. Komatsu, also from Japan, announced just before Christmas that it was to make heavy construction equipment in the north east at Gateshead and Eur-O-Compound Belgium, a supplier of compounds for the carpet industry, set up a manufacturing operation in Manchester.

The list of overseas companies that have established operations in the UK is impressive: Ford, General Motors, Du Pont, Esso, IBM, Hewlett-Packard from the US, Sony from Japan, SKF from Sweden, Philips from the Netherlands, Olivetti from Italy, Ciba-Geigy and Roche from Switzerland, Rhone-Poulenc, Renault and Michelin from France—these names just scratch the surface.

Britain has, in fact, captured the lion's share of the investment that has migrated to Europe from both West and East, a performance which is viewed with envy by a number of other European countries. Last year alone, major investments were announced in the UK by Du Pont, Hewlett-Packard, Rohm Corporation (an IBM subsidiary), Damon Biotech, Merck Sharp and Dohme, Digital Equipment and Data General Corporation.

Some 41 per cent of all US investment in the EEC, amounting to some \$32bn (approx £23m) has come to Britain. The nearest competitor, West Germany, has attracted 19.3 per cent of that investment, worth \$15bn, with the Netherlands in third place with 10.5 per cent worth \$8.3bn.

Most Japanese investment in Europe has also come to the UK and even when Japanese concerns have moved to Europe that move has often been from a bridgehead in Britain. It has been estimated that around 40 major Japanese concerns, including Sony, Matsushita and Hitachi, are in the UK.

Nor is it just the US and Japan that are investing in the UK. Many of the major European concerns are in the country and there is increasing interest in Britain from places such as Australia, Hong Kong and Singapore.

In 1984, the last full year for which figures are available, 285 foreign-owned concerns undertook investment in the UK, of which almost half,, 134, were American and a further 38 West German. The Invest in Britain Bureau has estimated that these projects created 28,125 jobs and safeguarded almost 18,000 more.

In many of these cases the motivation is a desire by expanding companies to open up new markets for their products and to eliminate transport costs, or, particularly in the case of the US, to take advantage of lower wage costs.

The big increase in Japanese investment over recent years has to a large extent been prompted by another factor—increasing pressure from its trading partners for a reduction in its direct exports. The growing prospect of EEC trade restrictions in a number of product areas has persuaded the Japanese it would be politic to transfer some production destined for Europe to Europe itself.

The fact that mobile investment is often English speaking, or that English is the major foreign language of executives, has given the UK an enormous lead in attracting schemes such as these.

The number of Japanese businessmen who speak European languages other than English is infinitessimal. British development agencies and local authorities have too gone out of their way to smooth the path of Japanese managers in Britain, and this has undoubtedly played an important part in sucking in additional investment.

Intangible business factors such as language are, however, outweighed by solid commercial reasons when it comes to choosing between locations.

All the European countries compete strongly in the provision of grants and other incentives in order to attract mobile international projects, and there is strong competition too from other parts of the world, including most recently China. Japanese companies in particular are being strongly courted by the Chinese.

In Britain itself, some £600m was spent in the 12 months to April 1985 on mandatory and selective assistance to industry setting up in economically depressed regions, though this figure is likely to be lower in subsequent years following the redrawing of the aid map by the present Government towards the end of 1984.

In the areas still covered, however, a company can still receive mandatory grants of 15 per cent towards the cost of new plant, machinery and buildings and one moving to a lower-tier, intermediate area can still find itself eligible for selective financial assistance.

Another factor which has

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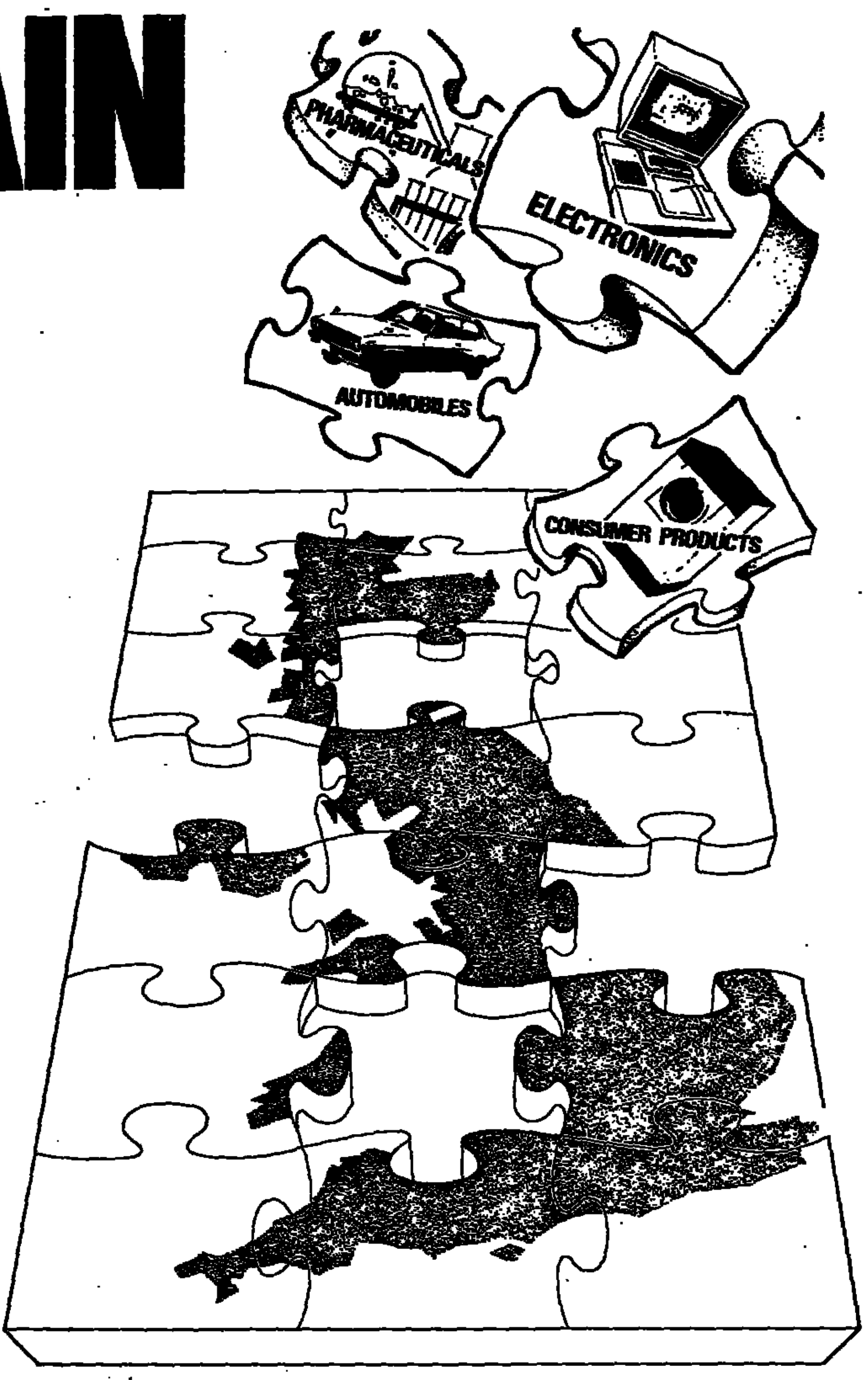

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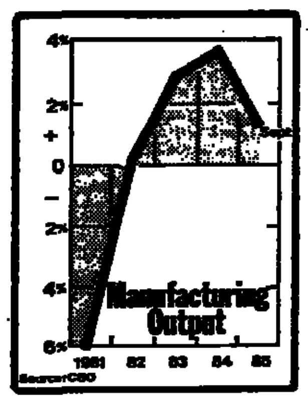
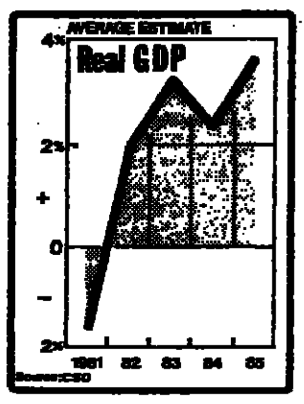
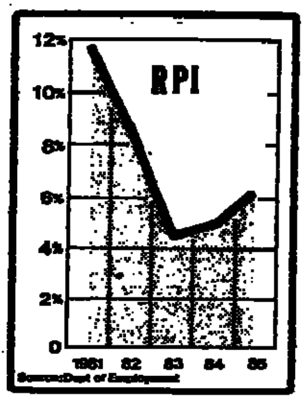
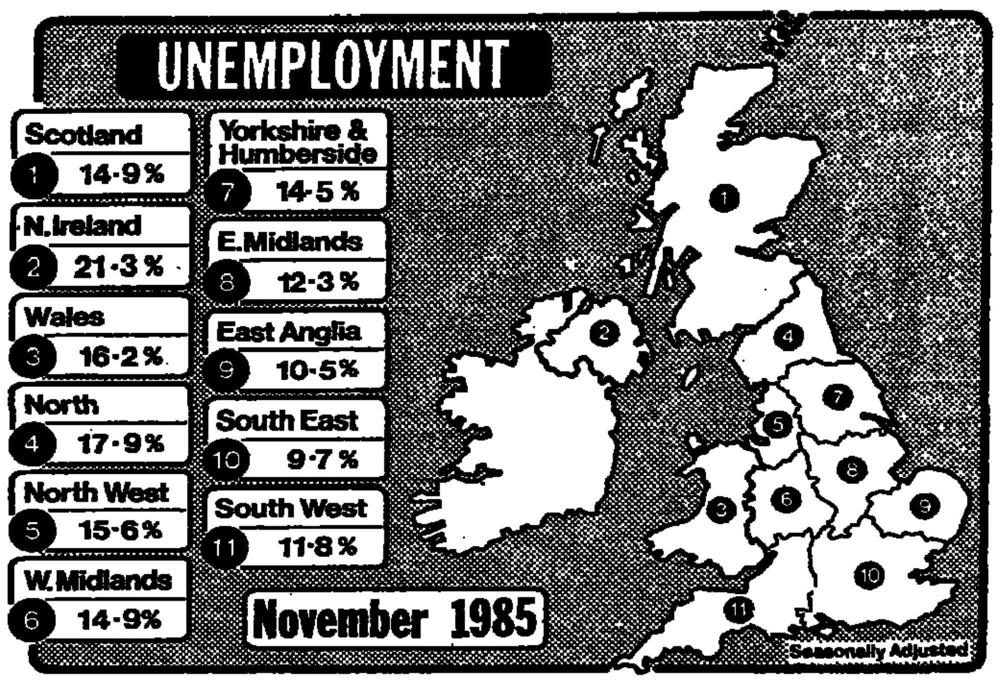








Some successes but jobs gap remains

Economy
PHILIP STEPHENS

SHORT-TERM optimism and medium-term pessimism have been at the centre of recent debate in Britain about the country's overall economic prospects.

The Government, despite the recent jitters on the oil and foreign exchange markets, is confident that 1986 will be another year of strong growth and relatively low inflation. That would allow it to claim the longest recovery in post-war history.

Independent forecasters are slightly less optimistic and highlight the fact that there seems no immediate prospect of a significant fall in the unemployment rate from the present 13 per cent. But they concede that the Treasury's projections for output and inflation next year are entirely plausible.

Critics of the Government's medium-term financial strategy—the basic framework for its tight monetary and fiscal policies—have tended to focus their attacks on the medium-term uncertainties as Britain's oil wealth gradually declines.

Their argument is that the large slice of Britain's productive capacity, particularly manufacturing industry, displaced by oil production and exports cannot be revived without a far more interventionist industrial strategy.

But the hostile official reaction to a recent report from the House of Lords urging greater government help for manufacturing industry suggest that there is little prospect that it will abandon its present hands-off approach.

The official view is that the deep recession of 1980 and the Government's tough line on inflation has left industry leaner, fitter and more able to compete in world markets.

The short-term optimism is found in the Treasury's Autumn Statement on the economy, released two months ago. It predicts that output will rise by 3 per cent in 1986 after an increase of 3½ per cent last year.

Retail price inflation, which hit a temporary peak of 7 per cent in the middle of 1985, is forecast to be below 4 per cent by the end of this year.

Mr Nigel Lawson, the Chancellor, claimed that 1986 would therefore be the first year since the 1960s that Britain's inflation and growth rates have been within percentage point of each other.

The recent flurries on the world's oil markets in response to Opec's apparent determination to preserve its share of production have probably trimmed Mr Lawson's tax-cutting ambitions for 1986.

And sterling's response to the Opec announcement last month—it lost 4 per cent of its value in three days before calm was restored—has shown how vulnerable Britain is to the vagaries of international oil prices.

But the steady upward revisions in the growth projections of many independent forecasters over recent months, has underlined official confidence over this year's prospects.

If growth is likely to remain buoyant its composition is expected to change markedly. Over the last two years the main engines of the recovery have been investment and exports.

Boosted by tax changes, which have encouraged companies to bring forward capital spending ahead of the phasing out of capital allowances in April of this year, business investment grew by 14 per cent in 1984 and 6 per cent last year.

The higher capital spending has also run in parallel with a surge in company profits. Between 1981 and 1984 profits rose by 70 per cent and there was a further 25 per cent increase between the first half of 1984 and that of 1985.

Exports, which began to grow rapidly in 1984 in response to sterling's decline over the previous two years, increased by an estimated 7 per cent in volume terms last year.

For 1986, however, the key to rising output is expected to be consumer spending, generated by buoyant earnings and a slower pace of price increases.

The sharp rise in the sterling exchange rate since the crisis in January last year and the weakness of international commodity prices will put sharp downward pressure on inflation.

The average earnings of those in work, however, are expected to continue to rise by between 7 and 8 per cent, triggering a steep increase in disposable incomes. The result, the Treasury predicts, will be a 4 per cent increase in the volume of consumer spending, with outlays on consumer durables rising by as much as 10 per cent.

In contrast, the growth rate of exports, which has already weakened considerably, is predicted to slow to between 2 and 3 per cent, while the Treasury's forecast of a 4 per cent rise in business investment is widely regarded as over-optimistic.

The latest survey by the Department of Trade and Industry suggests that capital spending across all industries will rise by only 1 per cent. For manufacturing industry alone it projects a 2 per cent fall.

It is this juxtaposition of high real wages and subdued investment and exports growth which has provoked concern over the longer-term future.

The massive shake-out in British industry during the 1980 recession and to a lesser extent in succeeding years produced a surge of productivity growth. Overmanning was curbed dramatically as uneconomic plants closed and soaring unemployment weakened the power of trade unions.

Output per head in manufacturing, which had grown by an annual average of only ½ per cent in the previous five years, increased by 3½ per cent a year between 1979 and 1984.

This sharp rise in productivity growth cushioned the impact of strong earnings growth on unit costs, contributing to the improved competitiveness of British industry.

More recently, however, the pace of productivity gains has slowed and high average earnings are being translated into rising unit costs.

The Paris-based Organisation for Economic Cooperation and Development (OECD) forecasts that Britain's unit labour costs could rise by between 5 and 6 per cent over the next 18 months, a much faster rate than that of its competitors.

To prevent these increases being passed on in the form of higher prices, official policy is expected to be directed towards maintaining a competitive squeeze on companies through high interest rates and a strong pound.

The danger is that companies will respond not by reducing the level of pay increases but with a further spate of redundancies, pushing up the unemployment even higher.

Oil surplus

Critics of the Government's strategy argue that its policies will only deepen the problems Britain will face as oil production begins to decline.

Output from the North Sea is expected to peak this year before beginning a gentle decline until the end of the century. Although the downturn trend will be a much more gradual process, the rise in oil output, its economic impact in terms of slower growth, lower government revenues and a worsening current account may be felt much more quickly.

Oil production has added an average of ½ per cent a year to growth since 1980. Over the next five years its contribution is likely to be between minus ½ and minus ½ per cent.

At the same time the cushion provided by oil to the current account surplus will gradually disappear. The fear is that the balance of payments constraint which has haunted British economic policy-makers for decades will then resurface.

The House of Lords report suggests that the Government should plan on the basis there may be no oil surplus by 1990 and a deficit again by the end of the century.

And the independent National Institution for Economic and Social Research forecasts that last year's £3bn current account surplus may be transformed into a small deficit by 1987.

Mr Lawson's view is that the gradual decline of oil output will generate a parallel fall in the real exchange rate, which in turn will stimulate a revival of non-oil exports and gradually reverse the present huge deficit on manufactured trade.

Expanding service industries will also take up some of the slack while Britain will benefit from the huge build up of overseas assets during the past few years. The surplus on invisible trade, which includes interest, profits and dividends as well as the receipts from activities like tourism, is already running at over £5bn a year.

The Government's confidence in a semi-automatic adjustment process, however, is not universally shared. The Lords report, which won all-party support, puts forward a number of factors which might prevent such a process.

It says that scrapped capacity can only be restored over a long period, markets lost to British goods will be difficult to regain, and the performance of the exchange rate is uncertain.

A Government-backed revival of manufacturing industry, it argues, is also necessary to make a significant dent in the unemployment total, already one of the highest in Europe.

The report warns of a major political and economic crisis in the foreseeable future if its recommendations for greater government aid for industry are ignored.

The Government's abrupt rejection of the report has prompted Mr Roy Hattersley, the Labour Party's shadow chancellor, to accuse the Government of deliberately sacrificing long-term recovery to give the impression of economic success ahead of the next general election.

Mr Lawson, however, shows no signs of wavering in his confidence that the huge structural changes in British industry over the past few years provide the base for its long-term revival.

A lion's share

CONTINUED FROM PAGE ONE

helped to make Britain more attractive has been the way in which the unions have become, as a result of Government legislation and high unemployment willing to change century-old work practices. In particular, the readiness of organised labour to negotiate non-strike agreements has been welcomed by a large number of companies.

Japanese companies have been quick to exploit this advantage and concerns such as Nissan have felt strong enough to insist on such agreements being written in before they go ahead with an investment.

Britain's long history of political stability has also helped though there is perhaps some fear among businessmen abroad that a change of Government could undermine the good climate fostered by the Conservatives since they came to power in 1979.

Mr John Smith, Labour's trade spokesman, refutes this categorically. "The Labour Party is as anxious as anyone else, he says, to attract investment into the UK.

"What we are especially interested in is overseas concerns coming to Britain and delegating management control locally. We do not want the UK to become part of the branch-plant syndrome, in which local managers cannot take any action before they ring Detroit."

The power of Britain to attract major companies in new fields can be seen from a survey in America of 760 US electronics concerns. Some 33.8 per cent of them said they intended to invest outside the US and of these 84, or 28.5 per cent, named Britain as their preferred location.

Nor is the attraction of the UK limited to the US and Japan. Figures released by West Germany's Federal Ministry of Economics in Bonn show that total German investment in the UK in 1984 amounted to DM 6.1bn (£1.69bn) compared with DM 5bn in 1983 and DM 3.96bn in 1982.

Mr David Harrison-Harvey, director of Invest in Britain Bureau since 1984, says "companies can make good profits in Britain; the UK is very much the preferred area in which to invest in Europe."

To ensure that Britain remains at the top of the investment table the Invest in Britain Bureau has recently taken a fresh look at its policy and recast some of its emphasis in different directions. Most important, it has abandoned the broad-brush approach and moved to a sector approach.

Instead of mounting missions and exhibitions abroad in the hope of attracting companies to Britain the IBB has gone to the areas, to Wales, Scotland, Northern Ireland and the English regions, and asked them what sorts of inward investment they really want or need.

The second change of approach is that the bureau is now looking at the imports coming into Britain and analysing whether the overseas exporter could not be attracted to set up production facilities in the UK.

Party system starts to change

Politics

MALCOLM RUTHERFORD

Mrs Thatcher: Thatcherism is now part of history

BRITAIN HAS had nearly seven years of Mrs Margaret Thatcher as Prime Minister with every prospect of at least two more years to come. "Thatcherism" or "Thatcherite" are sometimes used as a form of abuse, but they are also coming to have an historical sense—rather like Gaullism in France in the 1960s. For good or ill, she will have shaped British politics for a decade.

It is worth looking back to 1979, when she first came to power, to see how much has changed.

The initial answer is: a lot. But there are two subsidiary questions. How far will it stick? And was it the right kind of change?

The main political change has not been directly of Mrs Thatcher's making. The political map of Britain is quite different now from what it was seven years ago. There used to be, at the most, a two and a half party system, Labour and the Conservatives, with the Liberals sometimes doing well in by-elections and once, in February 1974, poised to take a large share of the national vote in a general election.

At that time, some of the electorate drew back at the last minute and the Liberals won just under 20 per cent of the vote and only 14 seats in the House of Commons.

There is now almost a three party system, at least in contour. The formation of the Social Democratic Party in 1981, mainly as a breakaway from Labour, and the subsequent alliance of the SDP with the Liberals, accelerated trends already in existence.

It used to be said, especially by the two main parties, that a vote for a third party at a general election was a wasted vote because there was no chance of it coming to power. That ceased to be so obviously true once the Liberal-SDP Alliance was established.

It has been several times ahead of Labour and the Conservatives in the opinion polls and has slightly out-polled them in the by-elections during the current Parliament.

A three-party system is not new in British politics, but it is in the post-war period. In the 1920s and 1930s three parties were the norm as the Labour Party was emerging and the Liberals were declining. The Conservatives seem to go on for ever.

Any realistic bet must be that they will win the next general election—in 1987 or 1988—as well: the third in a row.

The reason behind that assertion is that the opposition is divided and that Britain has an electoral system of "first past the post" or "winner takes all." There is no proportional representation.

So long as there are two opposition movements—Labour and the Alliance—fighting each other as well as the Government, the odds must be heavily in favour of the Conservatives.

There is no sign whatsoever of Labour and the Alliance coming together, even tactically, before the next general election. Thus the process of realignment in British politics which is undoubtedly going on has temporarily slowed down.

On the assumption that the Conservatives win, the really interesting developments will come *after* the next general election. What will be the future of the Labour Party if it loses yet again, having already seen its share of the vote fall to below 30 per cent in 1983?

Will the Liberals and the Social Democrats then formally merge into a single party? And, not least, what will the Conservative Party be like post-Mrs Thatcher, for it seems hardly likely that she will go on as leader into the 1990s?

The Conservatives, then, are the party to watch not only as the probable winners next time, but also for the way that they have been changing the political ground.

The social and economic changes since 1979 have been considerable. There has been a decline in trade union power, perhaps even in the idea of a united trade union movement. Strikes, apart from the exceptionally long and bitter miners' dispute of 1984-85, have become relatively rare.

The Government won that one by sitting it out, and it will probably be some time before any union takes on the authorities again in such a way.

Government legislation has made it easier for employers to take legal action against disruption, and also for union members to resist strike calls by their leaders: for instance, through insistence on secret ballots.

In turn, the unions have become less political. The EEPTU, which includes the electricians' unions, has become much less interested in Labour Party politics than in securing industrial agreements for its members, and that may be the pattern of the future.

There has been a bonfire of controls. Exchange control went very early in Mrs Thatcher's first administration. People talk much less than they used to about prices and incomes control, and it is fairly widely believed that the Government means what it says about bringing down inflation and keeping it down. At the turn of the year it was running at an annual rate of 5.5 per cent and expected to fall further.

Privatisation has been another big change. In a way it began with the sale of council houses, which turned out to be a hugely popular political act. The Government has followed up by selling state assets such as British Telecom, so that it is no longer a pipe-dream to talk about a share-owning as well as a property-owning democracy. Those changes will not be easy to reverse.

Darker side

Yet there is a darker side. Three points stand out.

- On the evidence of the last few months, unemployment may have peaked, but it is still just over 13 per cent. It is Mrs Thatcher's biggest liability.
- Attention has turned to the plight of the inner cities and to the gap between those in work and those out of work.
- The economic and social changes have been cushioned by the revenues from North Sea oil and gas. These are probably now at their peak. Britain has been extremely lucky to have them. The test of whether there really has been an economic transformation for the better will come as they decline.

Mrs Thatcher and her senior ministers think that their greatest mistake at the outset was to have underestimated how long it would take to turn the country round. That is why the Prime Minister began to speak fairly early on of needing a third term.

Yet perhaps that conceals an achievement. All the main political parties talk fairly sombrely now about the state of Britain. There are fewer rash promises and fewer illusions and no great belief that all problems can be resolved simply by spending money. Labour or the Alliance would be unlikely to go back on too many of Mrs Thatcher's changes.

A passionate believer takes charge

Regional policy

ANTHONY MORETON

THERE IS a new purpose about Government policy towards the regions and it stems directly from the views of Mr Leon Brittan, Secretary for Trade and Industry since the Government reshuffle last autumn.

Within days of being moved from the Home Office to a posting that was generally seen by outside commentators as a demotion, Mr Brittan had gone to the Conservative Party conference and told delegates that "the proper development and implementation of regional policy is a task of the highest priority.

"There are two subjects that are at the top of every pile within the department," a senior official of his new department said, "privatisation and regional policy."

Mr Brittan's speech caused almost as much surprise within the department as outside it. Officials hurriedly got together to try and put up new initiatives to clothe his words with deeds.

They were hamstrung in two ways, which Mr Brittan understands even if he does not publicly acknowledge.

His predecessor at the department, Mr Norman Tebbit, regarded regional policy as little short of a waste of time and money.

Recasting the shape of regional policy in November 1984, Mr Tebbit cut back the areas of Britain that qualified for assistance and reduced the amount of money that was spent in the assisted areas.

He made considerable savings in doing so and the general feeling was that if Mr Tebbit could have abolished regional aid altogether he would have done so.

Mr Brittan, therefore, came to office knowing he had to work within constraints that were not of his making, and knowing that there were no additional resources he could throw into the pot. If his officials came up with new initiatives they would either have to be ones that cost little or nothing or ones which took from Peter to pay Paul.

This must disappoint Mr Brittan because, as he observes, "the central direction of regional policy is clear. It is to bring more jobs to those parts of the country which have been worst affected by unemployment."

He adds: "I have always been a passionate believer in regional policy. It is one of the crucial instruments we have to bridge the gulf between different parts of the country.

"We must never allow it to become the Cinderella of industrial policy. The proper development and implementation of regional policy is a task of the highest priority."

It is clear that Mr Brittan has doubts about the central thrust of the Tebbit white paper, which was that regional policy should in future be seen in social rather than economic terms.

The economic argument for regional policy is, he affirms, "inconclusive." Rather than appear to be overthrowing a policy only recently installed, however, he says that if people will work on the basis of social grounds for regional policy being reasonable in present circumstances, he is willing to go along with it.

But the doubts he indirectly voices are not those that predecessors such as Sir Keith Joseph, Mr Cecil Parkinson or Mr Tebbit would have voiced.

Given that he can do little actively at the moment Mr Brittan is happy to settle for a "high profile" policy. This means, to the outsider, one in which he will personally always keep regional policy at the forefront of his own attention but will not seek to overturn, however covertly, the policy laid down in the white paper.

Such a high profile policy, as Mr Brittan describes it, will hardly satisfy the regions. There is no concession to those who want development agencies for the north east or the north west along the lines of those long since conceded for Scotland and Wales.

What Mr Brittan would like to do is to link the regional policies of his department with those parts of other departments' policies which impinge on regionalism. He instances the action teams which are looking at urban problems and believes these may be taken further. He would like to see the money available for purely urban problems used in a way that makes sense industrially.

"The DTI does not have a lot of room for manoeuvre with its finances," he says, "but it is possible we could put a package together with other departments to do good in specific places."

Mr Brittan therefore faces a difficult task. He has to convince people he really means what he says about believing in regionalism while at the same time being unable to back those assurances with hard cash.

The trimming of the regional budget has led many in the assisted areas to feel they are the victims of a policy that will inexorably boost the rich south east of England at their expense.

Mr Brittan denies vehemently there is a north-south divide in the country. "We have problems in parts of Britain, such as Cornwall and the West Midlands, outside the north," he points out.

"It is far too crude to talk about the division of the country in this way."

This argument is not nearly so easy to sustain in parts of the country which are having to come to terms with structural readjustment. To them, something more than a high profile is desirable.

Enterprise Zones

	Operational since	No. of companies 1985	Telephone Number
ENGLAND			
Corby	1981	112	(0536) 62571
Dudley	1981	n/a	(0384) 55433
Flixborough	1984	12	(0652) 52441
Hartlepool	1981	55	(0642) 765911
Isle of Dogs	1982	280	01-515 3000
Middlesbrough	1983	91	(0642) 222279
N.E. Lancashire	1983	56	(0282) 37411
N.W. Kent	1983	115	(0634) 727777
Rotherham	1983	58	(0709) 372099
Salford	1981	230	061-793 3237
Scunthorpe	1983	19	(0724) 862 141
Speke	1981	59	051-227 3911
Telford	1984	23	(0952) 613131
Trafford Park	1981	108	061-872 2101
Tyneside-Gateshead	1981	15	(0632) 771011
Tyneside-Newcastle	1981	81	(0632) 328520
Wakefield	1981	46	(0924) 370211
Wellingborough	1983	74	(0933) 229777
Workington	1983	109	(0900) 65656
SCOTLAND			
Clydebank	1981	300	041-952 0084
Invergordon	1983	42	(0349) 853666
Tayside-Arbroath	1984	7	(0307) 65101
Tayside-Dundee	1984	25	(0382) 29122
WALES			
Delyn	1983	79	(03526) 4004
Milford Haven Waterway	1984	250	(0437) 67655
Swansea	1981	155	(0792) 50821
NORTHERN IRELAND			
Belfast	1981	250	(0232) 248449
Londonderry	1983	67	(0504) 263992

Compiled by Sue Hopkins

Foreign banks attracted by open door policy

FINANCE

An open door policy has made London one of the world's three main financial centres. Liberalisation will be taken a stage further this year with the restructuring of trading in domestic securities.

Financial Services

BARRY RILEY

BRITAIN HAS one of the most open and internationally orientated financial sectors in the world. There has long been a substantial foreign participation in banking and insurance. Now the only major closed sector, the domestic securities market, is being dramatically opened up later this year in a fundamental restructuring dubbed the "Big Bang."

Traditionally Britain, as an island nation with at one stage a substantial worldwide empire, has been highly active in international trade and this has led naturally to the development of various financial markets — for banking services, insurance, commodities and securities.

Since the Second World War, however, the empire has faded away, and a major driving force behind the growth of financial services has been the determination of the Bank of England to promote the City of London as a major international centre.

The major example of this has been the "open door" policy towards foreign banks in the past two or three decades, at a time when many countries have jealously protected their own banking systems against external influence.

Now there are as many as 30 foreign banks with full branches in London, according to a survey by the Banker magazine. International business dominates the banking sector, as is shown by the fact that two-thirds of the £736bn liabilities of the banking system in mid-October were denominated in foreign currencies.

Of this total, American banks accounted for around £100bn, and Japanese banks for some £160bn.

This is not to say, however, that foreign banks have found it at all easy to penetrate the domestic core of retail banking. High street banking is dominated by a handful of clearing banks and a much larger number of mutually owned building societies — each group having sterling deposits of around £100bn.

An attempt by the Hongkong and Shanghai Banking Corporation to buy the Royal Bank of Scotland was fought off several years ago. But Citicorp, which has been nibbling at the market for more than a decade, has now achieved the important step of direct access to the London clearing system. And new building society legislation may enable societies to incorporate creating at least the possibility of future takeover bids by foreigners.

Generally speaking, foreign banks have found it easier to enter the domestic corporate market than the domestic retail market. The American banks, in particular, have developed a big business with corporate treasurers in currencies and in short- and medium-term credit.

Longer-term capital is another matter, however. The British merchant banks have maintained their close connections with domestic companies, though they have concentrated increasingly on advisory and other fee-earning business and have been increasingly squeezed out of the wholesale money business.

Adjust

Now the merchant banks are going through a major shake-up as they seek to adjust to revolutionary changes in the securities markets. At present these markets operate on two levels. The Eurobond market is a fast-growing, young market (just over 20 years old) which is capitalised at maybe $400bn and is almost entirely operated by foreign banks and securities houses. Until now the London Stock Exchange has managed to keep foreigners out of its own markets, principally the £250bn equity market and the £100bn Government bond or gil-edged market.

The existence of foreign exchange controls up to 1979 partly explained the Stock Exchange's introversion. But by the early 1980s the Bank of England had begun to get very impatient with the Stock Exchange's unwillingness to fulfil an international role. At the same time, developments in data processing and satellite communications were starting to transform the global investment scene.

So, in 1983, the first steps were taken to open up the domestic securities markets. Foreigners have already taken minority stakes in many London securities firms. In March this year they will be permitted to buy 100 per cent, ahead of a complete restructuring of the market's trading systems on October 27.

Both the equity and gilt-edged markets will be affected. In some ways the more dramatic changes will occur in gilts, which will be turned into a look-alike version of the US Treasury Bond market. Almost half of the 29 initially approved market makers will be foreign-owned — though it remains to be seen whether all 29 will go into action next October 27, given general fears of cut-throat competition.

The new equity market will mirror many features of the screen-based NASDAQ market in the US. Many foreign-owned firms are expected to participate, and already 15 or so are hooked up to the London Stock Exchange's SEAQ International screen system for trading foreign equities, this being something of a trial run for the main domestic SEAQ (Stock Exchange Automated Quotations) system which will also open for business on October 27.

American firms dominate the list of foreign entrants, but there are also Swiss, French, Canadian and Australian contenders and other European arrivals are expected.

The Japanese are also very interested, but they have been halted so far by an argument about the need for reciprocal access by British firms to the Japanese markets. However, the first half-dozen foreign seats have now been allocated on the Tokyo Stock Exchange, and it looks as though the impasse is beginning to be broken.

Certainly the London Stock Exchange is becoming much more enthusiastic about foreign participation, and suggestions made a year ago about high entry charges have been severely modified.

A major factor behind this has been the setting up of an embryonic organisation of foreign securities houses — provisionally entitled the International Securities Regulatory Organisation — which in conjunction with the existing Association of International Bond Dealers (based in Zurich, but with most of its members in London) is talking of setting up an international equity market as well as restructuring the Eurobond market on more formal lines.

The formation of Isro reflects the proposal to reshape the UK's regulatory system for investment markets roughly the same time as the stock market is reconstituted.

A new statute-backed body called the Securities and Investments Board is to be set up under new legislation now going through Parliament in the shape of the Financial Services Bill. This means that any firm dealing in investments in the UK —British or foreign — will need to be authorised.

Usually this will be done through membership of self-regulatory organisations recognised by the SIB, though the Bill also provides for direct authorisation by the SIB itself. Firms will have to satisfy fit and proper criteria, and comply with various rules covering matters like solvency, surveillance and reporting. It will be a criminal offence for unauthorised firms to operate in the UK in a wide range of broadly defined investment markets.

Outside the securities trading field, the relevant areas will include the futures markets — where the London International Financial Futures Exchange is now, after three years, well-established as the largest futures market outside the US. Many foreign firms are represented in this market.

But while Liffe grows, the much longer-established commodities futures markets are under something of a cloud, affected by weak prices, the effect of severe competition from the US exchanges, and the recent crisis in the tin market.

Investment managers will also need to register with an appropriate SRO, perhaps the mooted Investment Management Regulatory Organisation. London has established an important position as a base for global portfolio management, and a Bank of England survey last year indicated that at least £130bn was being managed, including around £30bn for overseas residents. Within this, the UK offices of foreign firms were running £12bn for overseas residents on a discretionary or advisory basis.

Marketing practices

Certain life assurance and mutual fund (unit trust) operations will also fall within the jurisdiction of the new regulatory framework, at least in respect of marketing practices. This is a competitive area, but several medium-sized life assurance companies have recently been acquired by foreign interests, and one of the biggest US companies, Aetna Life, is currently seeking to build up a presence in the market.

General insurance, meantime, is one of the most cosmopolitan sectors of the financial services industry in the UK. As with banking, the corporate market is easier to enter than the retail market where success depends on very large number of individual sales outlets.

Besides the companies there is also of course, Lloyd's, which has been going through a troubled spell but which continues to attract investment money from increasing numbers of rich individuals in the UK and abroad.

North Sea link-up

NEK CABLES part of the Norwegian group, Norsk Elektrisk Kabelfabrik, moved in 1982 into a factory at Washington New Town in the north east which had been built originally for a TV broadcasting company.

Since then it has more than doubled its floorspace, injected a second significant tranche of investment in plant and machinery, increased its workforce fivefold and tripled turnover.

In the process the company, one of a number of Scandinavian groups which have crossed the North Sea to begin operations in the North East, has also introduced a ground-breaking Continental shift system

The changes involve the replacement of a three-crew five-day working system to one utilising five crews in continuous working. This has raised total production hours from 5,500 to 8,500 hours per year with a single ten day shutdown over Christmas.

"I am very pleased with what we have achieved," says Mr Asbjorn Bjorvik, the Norwegian joint managing director responsible for production and financial control.

NEK manufactures over 0.5m metres of low voltage cable a week at its Washington plant. Its customers include the BBC (for studio cable), and computer companies such as IBM, ICL and Wang. Its cable is also being used in the System X telephone exchange system.

Mr Bjorvik hopes the site's turnover will rise next year to £8.5m from this year's £6.5m, and that it will be turning out 40 tonnes of cable a week next year against the 35 tonnes it managed through this year.

Oslo-based NEK was partly drawn to the north-east because of its traditional links with Scandinavia, good air communications between the two regions and the work done by the North of England Development Council in selling the north-east to the Scandinavians.

But it was also attracted by the 22 per cent government grants then available as a result of the region's special development area status. Total investment in plant and machinery at the beginning was almost £3m. A further £4m has been put in with the floorspace increasing from 47,000 to 116,000 sq ft.

Mr Bjorvik is the only Norwegian on the site—the other joint managing director, Mr John Day, is responsible for sales and heads NEK's longer-established sales company in High Wycombe, Buckinghamshire.

Norwegian personnel were in Washington acting as consultants during the initial start-up, but all personnel other than Mr Bjorvik are British. Plant supervisors have had training in Norway but all training of the manual labour force is now done on site by British personnel.

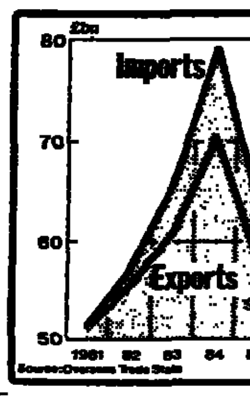
Mr Bjorvik says he has found nothing surprising in NEK's experience in Britain. It has not been difficult to find trainable labour and labour relations have not been difficult.

NICK GARNETT

Doors kept open as spur and example

Trade policy

CHRISTIAN TYLER



Source: Overseas Trade Stats

IN BOTH goods and services, Britain claims to operate one of the most open markets in the world. There are three reasons for that, according to a recent redefinition of trade policy by ministers in the present Conservative Government.

First, the UK is a stout defender of the aims of the General Agreement on Tariffs and Trade and is anxious to respect its Gatt obligations. Secondly, a country whose exports are the equivalent of nearly a third of gross domestic product depends more than most on continuing expansion of world trade under the liberal precepts of the Gatt system.

Thirdly, so the present government argues, the cost of protecting one industry from foreign competition will fall on other industries. Jobs saved in one part of the economy will probably be lost in others; more expensive imports would divert spending power and retaliation by other countries would hit established exporters.

This kind of logic has informed the trade policy of successive British governments. It is rare, except at times of acute economic hardship, for the UK to throw up barriers. Selective and temporary import controls have for years been demanded by the trade unions and by large sections of the Labour Party: for the most part those demands have been ignored, even by Labour governments.

The policy of the present Labour opposition has yet to be fully defined. But there appears to be little appetite, at least conceptually, for systematic protection from imports, if Labour forms the next government.

Of course, even the market-minded Conservative government is not entirely free-handed in trade policy. Mr Norman Tebbit, the former Trade and Industry Secretary, said, in June this year, that until the Gatt safeguard system was made more "flexible," the UK was bound to respond to the damage done by unrestrained imports from the newly industrialised countries and Japan.

Little appetite

"What we have to resolve is the potential conflict between, on the one hand, the social and economic consequences of rapid change in supplying patterns and, on the other, the economic penalties which restrictive practices like voluntary restraint agreements carry.

"I recognise the force of the economic arguments in favour of letting structural adjustments take an untrammelled course. But as a politician I need to work within the ambit of what is tolerable to voters within a democratic society."

Britain's import and export regimes are of course largely shaped by the European Community. Partly because of EEC membership, according to the last detailed study by the Department of Trade, only 7 per cent of visible imports into the UK were subject to British restraints, while 17 per cent were subject to tariffs. (An estimated quarter of the products restrained were also subject to tariffs.)

The net result was that about 78 per cent of visible imports were entering the country free of any restraint. That compares with a figure of 40 per cent in 1960.

The EEC accounted for 47 per cent of UK imports—all tariff-free—and the Efta countries 16 per cent—virtually duty-free. Other developed countries, and the centrally-planned economies, accounted for 27 per cent of imports and paid duty on 56 per cent of that trade, while the developing countries, with a 10 per cent share, paid on 43 per cent.

Among the commodities subject to import controls is steel, under the provisions of the European Coal and Steel Community treaty, mainly by means of "voluntary" agreements. More important is the quota restraint on textiles and clothing, permitted by the Multi Fibre Arrangement condoned by Gatt.

Following an economist's analysis of the costs and benefits to the British economy of the MFA, the UK has taken a more liberal line on textile trade. In the forthcoming renegotiation of the agreement it will argue for renewal of the system, but for a much less restrictive framework.

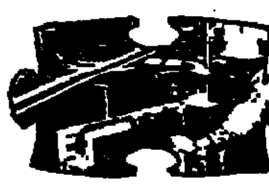
The whole MFA question could be thrown into the melting pot, however, now that the 90 Gatt nations are preparing for a fresh negotiating round: textile trade must surely become an important bargaining counter for the developed countries if they are to win real concessions from the poorer nations.

On the export side of the equation, there are few restrictions imposed by Britain. Control orders cover defence equipment, atomic energy goods and "strategic goods." As a member of the Co-ordinating Committee for Multilateral Export Controls (CoCom), based in Paris, the UK is bound to vet sales to the Communist world (and some other countries) of any goods that might have a military application.

The CoCom rules, recently revised in an effort to keep pace with rapid technological change, are somewhat controversial, however. Many companies argue that the definition of "militarily useful" has been taken to absurd lengths, and that bona fide trade with the Soviet Union and its allies is being impeded.

Other British export controls are designed to conserve scarce materials, to protect animal welfare or to save the national artistic heritage.

Exchange controls were abolished in 1979, since when there has been a very substantial increase in overseas investment. Direct investment overseas by non-oil companies in 1983 amounted to $2.6bn, with other investment totalling $1.8bn. UK residents' portfolio investment abroad was over $6bn. The corresponding figure for all inward investment was $5.4bn.



INDUSTRY

The shake-out of the past five years has left industry leaner and fitter. The test it must now equip itself for is to make good the loss of oil revenues in the 1990s.

Industry learns to use the European system

Incentives

GAY SCOTT

DESPITE SUGGESTIONS to the contrary, the UK has in general been fairly successful in drawing money from European sources. Britain tends to have good projects and has proved reasonably efficient in drawing up the submissions for vetting in Brussels or Luxembourg.

By far the biggest chunk of EEC spending goes to support the Common Agricultural Policy. Although this expenditure is being brought slowly under control it has not yet diminished to such an extent that industrial funds can grow rapidly.

Funds for training, energy, research and manufacturing are, nevertheless, large and can make a strong input on individual projects. Competition for these funds is tough—and getting tougher. The project must be high quality and it must appeal in European terms.

Under the European Regional Development Fund the greater part of the available grants are on a quota system with the UK's share set at between 21.42 and 28.56 per cent of the total. Only Italy has a larger share than this with between 30 and 40 per cent.

All the UK has to do to attract this money is to submit eligible projects for industry, services or infrastructure projects in the assisted areas. However, there has been a serious shortage of industrial projects in the last few years of recession and the greater part of the funds have been spent on building roads and bridges and other infrastructure projects.

The Government does not pass on the money which it receives from Brussels for industrial investment under the fund but it does use it to reimburse the Exchequer for grants which it gives under section 7 of the Industrial Development Act.

Clean up

In the package of grants announced in September over £2.5m was allocated for the main runway at Leeds/Bradford airport and £2m for a conference, exhibition and leisure centre in Torbay. A golf course in Fermanagh received £159,000 and a leisure complex in Blackpool got £2.5m. A further £67m was announced for the UK at the end of November—this time with the most of it targetted towards cleaning up Merseyside, and for building new industrial estates and advanced factories in Shildon in county Durham, an area affected by the closure of the local British Rail engineering works.

Smaller businesses are benefiting too. Under the so-called, "non-quota" section of the fund, further finance is available for specially designated areas. These include areas which have suffered from closures and rationalisation in the traditional industries—steel, shipbuilding, and textiles. On November 26 1984 a £100m package of assistance was announced under this scheme.

Assistance is given for two kinds of project—one to help small and medium sized companies and the other for environmental improvements including the conversion of disused buildings into premises suitable for small businesses. The English version of the small firms aid is called "Business Improvement Services." Scotland, Wales and Northern Ireland have their own arrangements.

While the lion's share of the funding comes from Brussels, the UK Government is also contributing some money. Small firms can have a business check-up, review their marketing activities, translate their sales literature for exporting purposes, investigate the merits of acquiring a microcomputer and associated software or even develop a new product or process, under this scheme.

In 1984 the UK received 32 per cent of the total money available for training grants under the European Social Fund. 1985 also looks like being a good year with the UK winning £290m—second in the league once again to Italy which will get about £330m. However, with Spain and Portugal now full EEC members, the UK cannot expect to go on getting as much. The Social Fund is not the only measure of support for training. The new COMETT programme agreed by the council of ministers in record time in December will fund university - industry links throughout the community.

Once a year the Commission also awards grants to executives in European firms to take part in an 18-month training course in Japan. This includes a 12-month full time intensive course in business Japanese followed by 6 months "on-the-job" training in Japanese companies.

Apart from these major so-called "structural" funds there are a host of additional schemes which can fund industrial projects—particularly in the research and development field. A series of agreed objectives constitute a framework for a number of individual programmes which go by acronyms such as Esprit, Race and Brite.

These schemes are all aimed at industry, the objective being to encourage companies in conjunction with partners from another EEC country to carry out research and development projects in order to strengthen the technological base of Europe. The intention is that Europe should catch up with the Japanese and Americans in technological development. The sums of money available are not insignificant—for example, under Brite (basic technological research in Europe) the Commission were looking to fund individual projects with costs of around £625,000 with a 50 per cent contribution from Brussels.

A recent mid-term review of Esprit, the Community's information technology programme, revealed that a further 87 projects were funded in 1984 to the tune of £183m.

Universities also now view EEC programmes as a way of bolstering diminishing income and many academic and research institutions take an aggressively commercial approach towards securing external funding. For example, the Consumers' Association obtained a grant of around £150,000 for developing Videotex for consumer information under the data-processing programme.

Various soft loans are also available from the EEC. The withdrawal of the Government's exchange risk cover scheme has made European Investment Bank loans less attractive than they once were, since European loans are made in a cocktail of currencies and most companies would wish to guard against fluctuations in currency by taking on a sterling liability only.

However, EIB loans are made at below normal base lending rates and companies may consider a medium-term loan in a mix of currencies to match their receivables. In 1984 Short Brothers of Belfast negotiated a £10m loan for the development and production of their 36 seater commuter aircraft.

Of much greater attraction are the loans made by the European Coal and Steel Community not just for investment projects in the industry itself but also for any suitable projects in coal and steel closure areas.

These loans are available for projects which create jobs in manufacturing or services which could be held as suitable for former steel or coal workers. The essential features of European Coal and Steel Community lending—fixed low-interest rates for medium-term lending with delayed capital payments have proved very attractive. The Government still offers exchange risk cover up to a maximum of £500,000 for each project. The sterling interest rate is 2 per cent below the broadly commercial rate.

ECSC lending in the UK was low in 1984 at some £49m compared with £163m in West Germany and £107m in France. The UK, however, has by far the largest amount in ECSC loans outstanding at the end of that year—£1.453bn.

Gay Scott is a director of Eurofi, financial advisors to industry.

AID FROM EUROPE

In 1984 the United Kingdom received a total of £2.017bn from the European Community budget by way of payments and grants. Of this figure the lion's share went to agriculture in the form of guarantees and subsidies to farmers. If this sum is excluded (£1.2bn), the remaining funds were spent on individual investment projects, broken down as follows:

FEOGA Guidance section (for investment projects in farming, horticulture and fishing industry, the agro-food industry): £71m

European Social Fund (for training project): £282m

European Regional Development Fund (for industry and infrastructure projects): £183m

Loans

European Coal and Steel Community to UK: £49m

European Investment Bank: £521m

Sources: Eurofi, HM Treasury European Commission.

Community payments*

Country	Contributions Ecu m	Receipts Ecu m	Receipts %
Belgium	1,258.3	840.1	3.5
Denmark	532.9	1,020.1	4.2
West Germany	7,652.4	4,019.2	16.7
Greece	355.8	1,364.0	5.7
France	4,802.3	4,342.5	18.1
Ireland	286.3	1,210.4	5.0
Italy	3,443.4	4,962.4	20.7
Luxembourg	51.3	11.2	0.1
Netherlands	1,687.8	2,122.6	8.8
UK	5,429.5	4,092.5	17.1
Total	24,880.0	23,998.2	

Source: Eurofi. * Includes agriculture.

Manufacturing sector shows resilience

Industry

IAN RODGER

THE STATE of UK industry has been a subject of constant and lively debate ever since people became aware two years ago that the country had become a net importer of manufactured goods.

The fact that the country which set off the industrial revolution—a country with few natural resources and a very large population—was no longer able to support itself with the goods it made came as a shock to most Britons. And it has been causing increasing alarm in some quarters because of the impending loss of the past decade's trade surplus on oil.

The issue came to a head in October with the publication of a report by a House of Lords Committee on Overseas Trade.

The report argued that the decline was due to low investment in, and the lack of cost-competitiveness of, UK manufacturing over a long period, exacerbated in recent years by high rates of inflation, interest and currency. It predicted that unless the Government took steps to stimulate the economy and provide special support for industry, many manufacturing sectors would continue to decline.

Responding for the Government, Mr Nigel Lawson, the Chancellor of the Exchequer, could hardly have been more devastating. The report, he said, consisted of "special pleading dressed up as analysis, and assertion masquerading as evidence." His view was that British industry was in much better condition than it was five years ago, thanks largely to a more liberal environment provided by the Government.

He argued that, as the oil ran down, the exchange rate would decline and industrialists both in and outside the UK would realise that the country was a good place to make things again. There would be no need for the "cocoon of subsidies" proposed by the Lords committee to bring about a big increase in manufacturing output.

So which side is right? Only time will tell, but there is already considerable evidence to support the Chancellor's view. Manufacturing industry undoubtedly is in much better shape than it was five years ago. Output per worker in manufacturing is 27 per cent higher than it was in 1980, largely because the Government has enabled managers to get rid of overmanning and the traditional rigidities in labour practices.

Cash flow has also improved steadily. Trading profits before depreciation of UK industrial and commercial companies rose from £40bn in 1980 to £67.2bn last year and there was a further 22 per cent surge in the first half of 1985.

The more vexing question is whether or not the shakeout of the past five years has caused the elimination or crippling of many sectors. And if that is the case, will it, as the Lords Committee claims, be very difficult to rebuild them?

It is certainly true that a few sectors, such as motor-cycles home entertainment products, photographic film, and special steels have all but disappeared. And others, especially motor-cars, have seen dramatic declines in output in the past decade.

But the resilience of manufacturing has been greater than many people may suspect. From its last peak in the fourth quarter of 1979, manufacturing output had tumbled more than 15 per cent by the fourth quarter of 1982.

Since then it has been recovering steadily, and is now only 6 per cent below the 1979 peak. A few of the UK's strongest industries, such as chemicals, pharmaceuticals and electrical engineering, are already above the 1979 peaks.

It is always difficult to get clear measures of capacity. But it is encouraging that even though many sectors are now nudging up against their historic production records, few complaints are being heard about capacity constraints.

What seems to have occurred is that, while much old plant has been scrapped, manufacturers have found that they can squeeze much more output from less equipment, better management and more co-operative workers.

Also, there has been a resurgence in investment in new, more productive equipment. From the last peak of £7.5bn in 1979, annual gross fixed investment by manufacturing industry dropped to £4.6bn in 1982, but recovered to £5.5bn in 1984 and grew by a further 5.5 per cent in the first half of 1985.

All this would seem to suggest that the mythical automatic regulator beloved by the current Government's economists can work. As the terms of trade move in Britain's favour, many British manufacturers may well be able to respond quickly and fully to demands for higher output.

There is also some evidence that industrialists are already planning to increase output in anticipation of such an improvement. Probably the most clear-cut indication was the decision in October by J. I. Case, the U.S. farm equipment group, to launch a £90m, five year investment programme in this country, involving the transfer of much of its manufacturing activity from the U.S. This programme alone is expected to generate an additional £130m in annual exports of manufactured products.

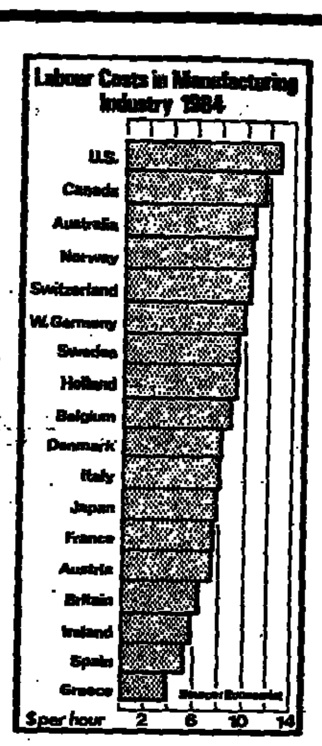
Farm equipment is one of the manufacturing sectors where the UK has remained very strong in recent years despite the difficult trading climate.

Many other mechanical engineering sectors too have held their own.

Britain also remains a major producer of gas turbine engines. Indeed, Rolls-Royce has the only significant aero-engine technology outside the US. Similarly, Ruston Gas Turbines is one of the few non-US companies to make its own-design industrial gas turbines.

Despite their upheavals in the past decade, the two largest final-product industries remain aerospace and automobiles. The automobile industry finally seems poised for some recovery from the slump of the past decade. Privatised Jaguar has been very successful as a result of a fresh commitment to quality and state-owned Austin-Rover has been making progress towards profitability.

As for the multinationals, Ford and General Motors, they, like Case, seem to have recognised that the UK will be an increasingly competitive manufacturing centre in the future. Ford, for example, is concentrating all its diesel engine manufacturing for Europe in the UK.



British Aerospace too has seen its prospects improve, thanks mainly to the recent strengthening of its civil aircraft interests. Airbus Industrie, in which it has a 20 per cent stake, has built up a substantial order book in recent months.

For all the promising signs, it still remains to be seen whether UK manufacturers will be able to fill the gap that will soon be created in the country's trade balance by declining oil surpluses. There is no doubt that they are now, with considerable Government support and encouragement, doing all the right things—designing for more efficient manufacture, using new materials, adopting flexible factory automation technologies, and paying more attention to marketing.

But it is difficult to tell if they are doing them as rapidly and effectively as their overseas competitors. The performance of the so-called high technology sectors is a particularly puzzling case. The statistics indicate that the electronics industries are growing very rapidly, but hardly a day passes without evidence of leading British companies in these sectors — ICL, Sinclair, Racal, Thorn-EMI, STC — being in trouble.

Perhaps the explanation is that their operations are now of less significance compared to those of foreign companies, such as IBM and Digital Equipment of the US, Sony and Hitachi of Japan, and many others, that are thriving.

Time will tell.

Challenge of the post-oil era

Energy

MAX WILKINSON

THE LONG slow decline of Britain's oil production is likely to set in from this year, bringing with it the need for profound adjustments in the economy as a whole.

In just 10 years, crude oil production from the UK sector of the North Sea has risen from nothing to an average of about 2.7m b/d (130m tonnes) last year.

By the end of this year more than $50bn (in current money terms) will have been invested in North Sea oil and gas fields, with the creation of some 100,000 jobs including those in associated industries.

In the next ten years, output from the fields now in production or being developed will fall steadily, and by the end of the century they will be providing only about 10 per cent of the current level of production.

The major challenge for Britain in this period must be to re-build the strength of the rest of the economy, especially the manufacturing sector, to provide the export earnings needed to pay for the oil and other goods which will then have to be imported.

For one of the remarkable aspects about Britain's second major period of discovery of fossil fuel is that it was accompanied by a sharp decline in manufacturing industry. In marked contrast with the great development of the "workshop of the world" on the back of Victorian coal production UK manufacturing output fell by about 15 per cent during the much more rapid build up of oil production from 1979 to 1981.

The decline of manufacturing, which has not been completely reversed in the steady recovery since 1981, cannot be linked in a naive way to the rise of oil. The sharp change in monetary policy in 1979 and long-standing structural weaknesses clearly contributed.

But the loss of competitiveness as rising oil production helped to strengthen the exchange rate in 1979-80 clearly was an important factor. It points to the essence of the problem which Britain will face in the years ahead.

Just as rising oil output pushed the UK balance of payments into surpluses far greater than at any time in post-war history, so the decline of oil must reduce the surplus with a consequent pressure on the exchange rate.

If this process is gradual enough, manufacturing industry may be able to rebuild its strength by exploiting its improved international competitiveness. But if the exchange rate were to come under sharp downward pressure the Government might well feel obliged to tighten its domestic policy to defend its inflationary strategy, with adverse consequences for industry.

Much therefore depends on whether the downward slope of North Sea output for the rest of this century will be gentle or steep. The current weakness of the oil market is also important for Britain since any sharp decline in prices could precipitate a fall in sterling.

In the longer term, weaker oil prices could reduce the incentive to develop new fields and so reduce the supplies available to Britain in the late 1990s.

The sharp decline in development activity in 1980 and 1981 pointed up this anxiety and led the Government to ease the North Sea tax regime in the 1982 Budget, when new fields became exempt from the 12½ per cent royalty payment. After that development picked up quickly.

Although it has become fashionable to analyse the future of "Britain without oil," the outlook is by no means all bleak. The 34 oil fields which were in production or under development by the end of 1984 are likely to keep the UK self-sufficient in oil until the early part of the next decade.

Production platform in the Forties field. [illegible] years Britain's North Sea oil output will fall steadily.

Future discoveries and production developments could extend that period considerably, perhaps even to the end of the century if UK demand for oil continues to decline and North Sea development is at the upper end of present expectations.

While it seems unlikely that any new discoveries will come close to the spectacular find of 270m tonnes of reserves in the Forties field in 1970, advances in deep sea technology and in recovery techniques could still have a major impact on the total reserves. However, future developments seem likely to be mainly of smaller fields of around 10 to 15m tonnes.

Britain's proven oil reserves in fields under production are now put at 1.45bn tonnes. Probable reserves (those which have a 50 per cent chance of being exploited) could bring this figure to about 2bn tonnes (14bn barrels), with "possible" reserves adding a further 650m tonnes, according to Arthur Andersen, the US accountancy firm.

At current rates of consumption, this would be enough to supply the UK's oil needs for between 17 and 35 years, although government policy is to maximise output at well above the UK consumption needs.

Proven gas reserves are put at about 47 trillion (million million) cubic feet, with perhaps a third as much again which may possibly be extracted. This is the equivalent of about 30 to 40 years of current UK consumption. However about a quarter of Britain's gas requirements are imported from the Norwegian sector.

Now that this huge industry is nearing its peak, increased attention is being given to coal, Britain's other great energy resource.

When the oil runs down, the UK will still have plenty of coal—perhaps for 150 years or so. The big question is whether this industry, plagued by strikes, poor morale and declining productivity can modernise fast enough to meet the challenge as gas becomes more expensive and oil becomes scarcer.

Since the end of the 1984-85 strike, the industry does seem to be showing signs of greater realism. The National Coal Board's labour force has been reduced from 187,000 in 1983 before the strike to 155,000, with output per man shift in September some 8 per cent higher than the average for 1983. However, absenteeism is still high at nearly 13 per cent, substantially more than in the earlier years of this decade.

In the domestic market coal will have a tough fight for some years against the superior convenience of gas. However, gas prices are certain to go up as cheaper supplies from the southern basin of the North Sea are exhausted and replaced by supplies from more expensive fields. This will no doubt increase the attractiveness of coal and oil for industrial users.

In the generation of electricity the choice between coal and electricity will depend crucially on outcome of the lengthy enquiry into the Central Electricity Generating Board's plans to build a pressurised water nuclear reactor at Sizewell on the Suffolk coast.

The board would like this to be the first of a family of nuclear power stations which would raise Britain's dependence on nuclear generation from about 8 per cent to 42 per cent by the year 2020. This would leave coal fired generation capacity at about 50 per cent, its present proportion, as the oil fired stations were gradually scrapped or converted to coal.

One of the political lessons from the recent miners' strike was the need to secure a diversity of power sources. The oil fired stations rescued the Government in 1984-85, but otherwise there seems little prospect that they can ever again earn their keep.

The nuclear programme is therefore seen as a political insurance as well as being a source of relatively cheap energy when the oil begins to run out.

Investing in Britain 8

Adherents flock to science park banner

Academic Links

ANTHONY MORETON

ANY INVESTOR or business-man wishing to set up facilities on a science park has an enviable choice in the UK.

Even if the choice is strictly limited to those which have links with universities the in-comer could go to a park from Dundee in the north to Brighton on the south coast. There is an even wider choice if the field is not restricted to university-linked parks.

There are at least 25 science parks associated with universities. There are others attached to centres of higher learning outside the universities and there are still others which have the backing either of major public companies, new towns or commercial property organisations.

This gives the potential investor enormous choice because each park has a different conception of its role. Most of those founded by, or linked with, universities believe that science parks should be centres for the transfer of technology.

The UK Science Parks Association has defined a park as being a place where "a collection of high-technology industrial companies or research institutes are situated in attractive, well-landscaped surroundings, developed to a very low density, situated near a major scientific university and enjoying significant opportunities of interchange with that university. They are a means of bringing suitable industry and applied research close to the sources of scientific progress."

Not all the parks follow this definition rigorously. At Cambridge, for instance, the first and still the biggest science park in Britain, with some 55 tenants, there are several large companies. The largest is Napp Laboratories, the US-owned pharmaceuticals concern which, while concerned with high technology and fine research, is also a commercial producer. There are others on the park, some three miles from the centre of Cambridge, close to the main ring roads, whose role is similar.

Others would see their role differently. "Our park is not a separate entity from the university," according to Mr Ian Dalton, who runs the Heriot-Watt Research Park associated with Heriot-Watt University in Edinburgh and chairman of the UKSPA.

"It is one aspect of the technology transfer that goes on here. If a company on the park gets to the point where it begins to be involved in mass manufacture then we would expect it to move on, to find a larger home somewhere else."

Heriot-Watt is not alone in this approach. It is shared by Brunel, on the western side of London near Heathrow airport, and Springfield House, attached to Leeds University, among others.

This approach may have come about because most British university-linked science parks are relatively small. Cambridge covers 130 acres, Surrey 70 acres and Heriot-Watt 56 acres but the average size is represented more by Stirling's 14 acres, Loughborough's three and East Anglian's 12.

Some science parks—Bradford, Leeds, Merseyside (associated with Liverpool University and Liverpool Poly) and Durham — are essentially single buildings so that the scope for the emergence of larger buildings is constrained.

Not all the science parks would accept the university-inspired definition, though. Warrington's Birchwood Science Park sees itself as part of the science park structure even though it is not, strictly, asssociated with a university and is certainly not in university grounds. The Mid-Glamorgan High Technology Park, at Bridgend, in south Wales has been funded by the county council and the Deeside Park at Wrexham in north Wales has been developed by the Welsh Development Agency.

Within Liverpool, Plessey, one of the giants of the British electrical and electronics field, has been instrumental in developing Wavertree, and at Bristol Aztec West has been set up and run by a property company, primarily as a real-estate operation. It is conceivable that when these parks are fully developed they will be able to contribute to the development of high-technology industries just as much as the more "pure" science parks.

Such a dichotomy of thought could only arise in Britain. There is no way it could happen in the US, where science parks originated at Stanford in California and around Boston, Massachusetts, in the 1950s. Americans believe that if a company starts in a small way asssociated with a university department and grows to an appreciable size it should not necessarily have to move away from the university solely because of that growth.

Stanford now has companies on it employing thousands of employees. Boston has spawned high-technology industries in a wide arc, associated with Route 128, around the city.

The difference, according to Mr Russell Cox, chairman of MIT Enterprise Forum, of Boston, is one concerning "cultural and entrepreneurial values."

The difference, he believes, "is not a matter of Europeans being unable to invent things or produce things. They can do it as well as people in the US.

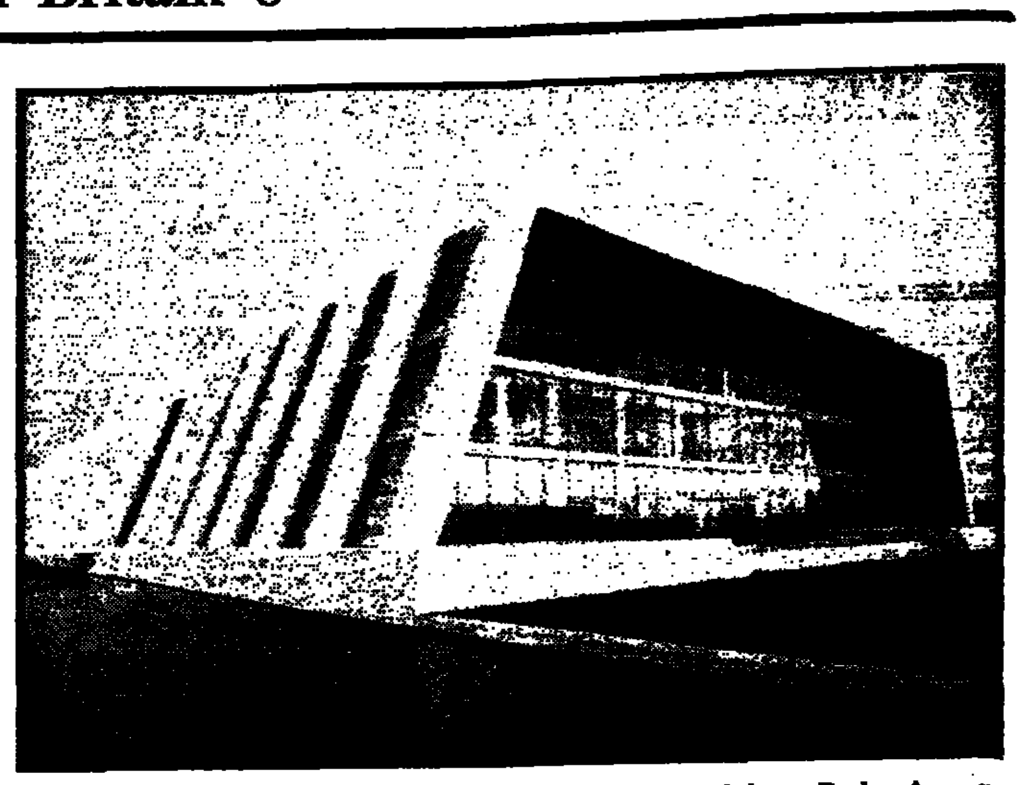
"What they do not do is turn those inventions into things with the same rapidity. We do not lay down rules about what should or should not be produced on a park. We just believe that if a company can grow good luck to it."

The closest place in the UK that approximates to Boston and Route 128 is Cambridge with its Cambridge Phenomenon, the sucking-in of high-technology industries into and around the university city. But the Cambridge Phenomenon has not depended on the Cambridge Science Park even though they have grown over much the same period.

The Cambridge Phenomenon occurred because a large number of companies, few of which originated in the university, decided to set up operations near the university so that they could offer attractive living and working conditions for their employees and operate in an industrially high-class environment.

The wide choice of sites now available in Britain is a recent happening. Although both Cambridge and Heriot-Watt have been in existence for over a decade the big growth has been in the last four years and owes as much to negative factors (a need to find other income by universities following government financial cuts in 1981) as positive (the drive by the government in 1967 to set up the parks).

The movement has not by any means ground to a halt. Many of those associated with universities are in their infancy and there is a lot of growth to come. Outside the universities there are others in hand. For the potential investor Britain as a site offers an almost embarrassing choice.



More than 50 companies are now based at the Cambridge Science Park. Among them is the £20m complex (above) for Napp Laboratories which houses the pharmaceutical company's research, production and distribution facilities. A special six-page report on the renewal of interest in UK science parks appeared in the Financial Times on Saturday, November 30, 1985

Criticism brings policy changes

Education and Training

ALAN PIKE

THE EDUCATION and training systems are occupying a pre-eminent position in the debate about Britain's future economic success.

Education and training are increasingly being treated as two parts of a single subject—a reaction to past criticism that there has been too great a gulf in Britain between a highly academic education system and an under-developed system of training.

Several factors have recently begun to bring the two elements of the system closer together. These include:

● Rapid changes in technology, producing a need for new skills to be acquired throughout working life.

● Government desires to make education and training more responsive to the needs of industry.

● Pressures for change generated by youth employment which has, in Britain like the rest of the EEC, been running at historically high levels during the late 1970s and 1980s.

It is not only in Britain that employers are critical of the schools and universities for allegedly not meeting the needs of industry. The British Government is attempting to respond to the criticism with a number of policy developments, one of the most important of which is the Technical and Vocational Education Initiative, TVEI.

This scheme, currently operating or being introduced in most local education authority areas on a pilot basis, offers a new combination of theoretical and practical technical education for 14-18 year olds. Employers have been offered a unique opportunity to work alongside teachers in curriculum development for the new courses, and Ministers believe TVEI will prove a stimulus for major reform in Britain's secondary schools.

The need to concentrate on courses which are relevant to industry's needs is one of the themes of the Government's higher education Green Paper, The Development of Higher Education into the 1990s, published last year.

Academics and opposition politicians have, however, been strongly critical of the Green Paper, saying that its outlook will leave the country with an under-funded and contracting system of higher education.

Recent research has warned of a growing shortage of graduates to work in advanced technology sectors of British industry, and the Government has responded to this by trying to achieve a switch in student places at universities and polytechnics from the humanities to science and technology. Initial evidence shows that there will be resistance in many colleges to the levels of reduction in arts subjects which would be required to achieve the switch.

Powerful campaign

Skill shortages are not confined to graduates. The engineering industry, for example, faces shortages of craftsmen and technicians between now and the end of the decade and this is one of the factors behind a powerful campaign to reform Britain's system of industrial training.

By any standards of measurement, industrial training in Britain is under-developed compared with its leading international competitors. A survey conducted for the Manpower Services Commission indicates that the average British company spends only 0.15 per cent of its sales turnover on training employees. Levels of 3 per cent are common in the US, Germany and Japan. State spending on training in Britain is relatively high — the shortfall is caused by the lack of investment by employers.

A major drive to reform industrial training in Britain is taking place around a three-pronged New Training Initiative devised by the MSC and Government. The three objectives are to reform traditional apprentice training, to change the way in which school leavers are prepared for work and to revitalise adult training.

Considerable progress has been made during the past few years in replacing time-served apprentices with training to modern, relevant standards.

Two years ago the Youth Training Scheme was introduced — Britain's first attempt to give all school leavers who do not continue into higher education a systematic preparation for work. Next year YTS is being extended from one to two years.

Britain had, prior to YTS, become increasingly isolated among industrial nations in allowing a majority of its young people to go straight from school to work without any formal vocational preparation. YTS has so far proved more successful among unemployed young people than those who find jobs, and the MSC's next objective is to develop the scheme into the natural route to work for all school leavers. The scheme has also provoked a review of vocational qualifications which is now in progress.

The successful launch of YTS has been achieved partly by the use of Government money to assist employers with the cost of taking on trainees. In the field of adult training the Government and MSC have concentrated on trying to convince employers that they should invest their own money, and progress here has been slower.

Surveys continue to show that British employers are generally less willing than their rivals overseas to see training as an essential business investment. In Germany, for example, it is common for up to half of a company's workforce to be undergoing skills training at any time, while about one-third of the working population in the US are involved in vocational education and training.

Japan — with a generously funded education system — has a culture of training deeply rooted in its industrial sector.

Persuasion

The present Government has preferred to use persuasion rather than compulsion in its attempts to improve industry's training performance. Most of the statutory industrial training boards were abolished four years ago, and replaced with voluntary arrangements of varying degrees of effectiveness. This contrasts with the position in Germany, where the training system is run by employers through chambers of commerce with statutory backup, and France where there is a national training tax.

The voluntary approach reflects the Government's view that employers are the main beneficiaries of training, and should therefore finance it and run it. Efforts are being made to bring together groups of employers to examine and respond to training needs at local level, and to improve links between employers and further education colleges.

There are also a growing number of schemes designed to take advantage of new technology to deliver training in more flexible and imaginative ways. One of Britain's real post-war educational achievements has been the Open University, and an Open Tech has now been founded to use similar distance-learning methods to offer retraining for adults at technician level in industry.

Job fears temper shopfloor climate

LABOUR RELATIONS in the UK used to be characterised in the term the British disease—a lack of commitment to work and to the company, translated into an apparent readiness to strike virtually instantaneously, on often the thinnest — if any — of pretexts.

Foreign investors in the UK seemed especially prone to outbreaks of the disease: seen as distant, wealthy multinationals, they were a political, as well as industrial target, for the militancy in the 1970s which lay behind certain trade union thinking and approaches at that time.

That British labour relations have undergone a sea change might be hard to tell in a year which has seen some of the most violent-ever scenes in a UK industrial dispute — the 1984-85 miners' strike — pumped nightly into people's general lives through the TV screen; but it has.

In international terms, the facts bear it out. The UK occupies today a middle-ranking international place in terms of days lost through strikes (though some of its most important competitors — West Germany, France, Japan—are below it), and though the CBI, the employers' body, is concerned that its labour costs are rising in comparision with competitor countries', they start from a low base: a survey by Institut der Deutschen Wirtschaft (IW), the West German employers' research body of comparative labour costs in 18 leading countries places the UK 15th, with its costs much lower than those of the US (1st), West Germany itself (6th) and Japan (12th).

Co-operation

That such international trends, combined with the UK's position as a point of entry into the EEC market, have not escaped foreign investors is clear from the number which have established manufacturing plants here: IBM in the south and Scotland, followed there by a host of US semiconductor companies; the Japanese in south Wales, and elsewhere too.

Labour relations were a problem in these companies' thinking — but not an overwhelming one. Forthcoming research by Professor John Dunning of Reading University on Japanese investment and practices in the UK shows industrial relations to be a consideration in siting here, but less of a minus factor than, for instance, problems of product supply and quality.

Primarily, the change in UK labour relations has been enacted by the sharp rise in British unemployment, from a national average of 5.6 per cent (some 1.32m people), when the Conservative Government came to power in 1979, to 3.17m now.

Its impact has been widespread, reducing strikes at one end of the spectrum, and helping to engender forms of workforce co-operation unthinkable in the UK ten years ago. It has slashed, for instance, union membership rolls, down almost 20 per cent from their 1979 levels. In the 1970s when UK unions were at the zenith of their power the leader of the largest union, the transport workers, was seen in opinion polls as more powerful than the Prime Minister.

Falling numbers — and, more importantly, the decline in the unionisation of the workforce — have led to tightening finances, and to unions adjusting their sights, and their ambitions.

That the Government has actively sought to promote this is clear: elected in substantial part on a platform to reform Britain's unions, the Conservatives set about it with a will, but with intelligence too. Their piecemeal, step-by-step approach, building for them gain upon gain, has left the unions mostly floudering for a practical and adequate response.

Apart from the legal changes in permitted behaviour which have seen supportive industrial action extensively curtailed, unions made financially liable for their actions, and ballots required before strikes, the central change has been one of attitude.

The effects have been enormous. At local level, for instance, faced with the acute reality of the recession — jobs going, plants closing — union members have been prepared to reach radical, new agreements which provide for a sweeping away of old-style demarcations, with complete interchange of jobs, in such sites as Shell's Carrington plant in Manchester, or Borg Warner in south Wales. Even strike-free deals have been mainly but not wholly signed by the EETPU electricians union, principally with the Japanese, in high technology plants such as Toshiba in Plymouth or Sanyo in Lowestoft.

These agreements can be likened to another development, the acceptance of new forms of more flexible working, such as the development in some companies of a "core" of permanent employees supported by part-time and other workers on the periphery.

At national level, the changes haven't been so thoroughgoing. Indeed, like the recent internal TUC row over accepting Government money for union ballots, it's arguable that the changes to date would not have taken place but for an upward movement, an osmosis from the members to the leaders. But change there has been; in particular, the 1983 General Election result, showing the largest-ever number of union members not voting for the Labour Party, severely discomposed union leaders.

It forced them, through the TUC, into a major and still continuing reconsideration of their whole strategy and purpose.

Britain's unions still face problems — of legitimacy, of credibility, and of membership in trying to break into the new, expanding service and high-tech centres, and in trying to deal with growing non-unionism.

Companies like Nissan, for which the securing of a sophisticated, co-operative strike-free deal with a single union was a vital prerequisite to full establishment in the UK, have shown faith in UK labour. The challenge facing British labour—one being accepted at local level, and in part and gradually nationally—is to match such faith.

Philip Bassett

Working Days Lost

Working days lost by industrial disputes per '000 employees, 1983

Italy	960
Spain	590
Canada	460
Ireland	400
Finland	360
New Zealand	350
Australia	320
United Kingdom	177
France	90
Denmark	40
Sweden	40
Netherlands	30
Japan	10

Source: Department of Employment Gazette, 1985.

ATTRACTING INDUSTRY TO SCOTLAND

A new challenge

LOCATE IN SCOTLAND operates from the offices of the Scottish Development Agency, the semi-official industrial promotion body for Scotland. It combines the promotional resources of the SDA with the grant-giving capacity of the Government's Department of Industry for Scotland.

Foreign companies can get both information and government financial assistance from LIS which has eliminated some of the counter-productive, competitive marketing by the various regional bodies such as the five Scottish new towns or the regional and district authorities, likely otherwise to join a queue of applicants outside the offices of big US electronics companies

LIS has the advantage of offices in Stamford, Connecticut, Chicago, Houston and San Francisco, to provide forward intelligence on industrial developments and possibly mobile companies. The SDA has had to fight to keep the offices in the face of pressure from London to centralise the entire UK inward investment promotion activities.

In Glasgow at the headquarters of the SDA, Mr Ian Robertson, the body's director points to increasing competition from development authorities in France and Germany as a new challenge.

Problems have been created recently, too, by the rise in the sterling exchange rate. This has come on top of last year's review of regional assistance for industry which greatly reduced the area in Scotland qualifying for automatic grants in favour of a more selective approach.

The change has worried the SDA which fears that this, coupled with the recession in electronics, will reduce the flow of companies moving into Scotland.

Mr Robertson and others are confident, however, that the pressure on US companies to reduce costs and penetrate the European market by establishing bases abroad will continue.

Inward investment is also seen as a major stimulant for indigenous industry. The supply industry serving the big US and Japanese electronics companies like IBM, NEC and Motorola is getting bigger and, in the view of the SDA, has now achieved growth momentum.

The ideal combination for Locate in Scotland is the company ready to set up a research and development facility in Scotland which will draw on the resources of the country's universities and technical colleges. Because R & D is brought in more management jobs are created and the company sets down deeper roots. It is the pure assembly operations which get closed when the parent company goes through a bad patch.

Companies like Hewlett Packard in South Queensferry and NCR in Dundee have developed new product lines in Scotland providing jobs and drawing engineering talent which might otherwise have gone south or even abroad in search of work.

Mark Meredith

Location Preference

Order of preference by the US electronics industry

Ranking	Previous year's ranking	Country	Number of companies out of 295 that have either chosen or shortlisted the country in question
1	1	UK	84
2	3	Ireland	50
3	2	W Germany	49
4	5	Mexico	37
5	10	Japan	35
6	4	France	30
7	8	Netherlands	28
8	7	Taiwan	26
9	6	Canada	22
10	14	Belgium	17
11	11	Spain	16
12	18	Austria	14
	9	Italy	14
14	16	Barbados	13
15	17	Switzerland	12

Why SCI found the package attractive

THE SCOTTISH electronics industry got a boost with the arrival of SCI of Alabama.

From its base in Irvine New Town in the southwest of Scotland, SCI manufactures components for the rest of the industry. Its decision to set up shop in Scotland demonstrates the encouragement given to companies to service and support the big multinational producers already present.

Mr Sandy Morrison, a Scot who is managing director of the £12m SCI plant, recalls that the infrastructure in Scotland supporting high technology companies was the chief incentive. The plant, the skills, and the back-up were there, he says.

The West Germans, French and Irish were also competing hard for mobile US companies.

Mr George Younger, Secretary of State for Scotland.

"They had different presentations. Ireland emphasised the grants, and the presentation centred around money. The German presentation was effectively done but the problem would have been with the language and with the overhead costs, it would have been expensive," Mr Morrison states.

Locate in Scotland followed up its initial package with proposals for possible plant sites. Inward investment had largely tended to favour other new towns like East Kilbride, or Livingston. But Irvine had what SCI wanted: a building in place and space alongside the plant for expansion.

Financial incentives from government were a stimulant but not the deciding factor according to Mr Morrison. "It was more like the icing on the cake," he says.

While this arrival demonstrated secondary growth of support industries for electronics—a Japanese silicon producer Shin Etsu was to follow—SCI on paper seemed to have one drawback.

The US company did not bring with it a commitment to research and development which the planners wanted to see in inward investment. These facilities are seen as requiring a higher calibre of management and drawing on the academic resources of Scotland.

A research and development operation also means putting down greater roots and makes a company less vulnerable to closure when the US or Japanese parents fall on hard times.

Mr Morrison denies, however, that SCI is a "branch office" liable to closure. The nature of business, making components for other manufacturers does not require research staff. SCI carries out work under contract, most of it loading printed circuit boards for the big Scottish-based producers. The plant employs about 400 staff.

Equal weighting

"We rise and fall on the level of success we have in operating market conditions. SCI will not pump in money regardless, but we have no problem with new investment if it is justified," he says.

A foreign plant's commercial performance is the real commitment in Mr Morrison's view. "We have an equal weighting with industry in the States. If we have a good order book, this would not be transferred to the States and the plant shut down."

The corporate structure of SCI means each plant is responsible for its marketing and overheads, which encourages autonomy and local initiatives.

Locally based marketing has been a benefit in the current slump within the electronics industry in the US. The European market has not declined by the same extent, and demand has been sustained.

M. M.

Freeports

Name	Area (acres)	Management	Number of companies in occupation†	Opening date*	Value of goods handled £	Contact
BELFAST	72.5	Northern Ireland Airports	1 with 2 in offing	Dec 1985	n/a	Mr F. McClenaghan (0232) 229271
BIRMINGHAM	11.5‡	West Midlands Freeport	none	mid-1986	n/a	Mr R. Taylor 021-767 6025
CARDIFF	40.0	Cardiff Free Port	several potential	mid-1986	n/a	Mr K. Carroll (0222) 489131
LIVERPOOL	600.0	Mersey Docks and Harbour Co.	2	Dec 1984	21m	Mr F. Robotham 051-200 2020
PRESTWICK	35.0§	Freeport Scotland	2 + public warehouse soon	April 1985	n/a	Mr Kelly (0292) 74983
SOUTHAMPTON	32.0¶	Southampton Free Trade Zone	none but public warehouse in operation	Nov 1985	n/a	Mr A. Kent (0703) 335995

* Designation date for all freeports was August 6 1984; these dates represent opening of actual operations.
† Business is transacted in two ways, namely, owner/occupiership of private warehouse facilities or use of public warehouse system. At this early stage a lot of business is carried on through the public warehouse systems, by so-called "free zone traders."
‡ Phase I. Expansion in Phase II involves further 13 acres.
§ Option available on a further 142 acres.
¶ Phase I, with 500,000 sq. ft. of existing warehouse facilities. Phase II (next year) will make available a further 54 acres.

Research: Sue Hopkins.

More modernisation plans in pipeline

Ports

ANDREW FISHER

THE UK has some of the most modern cargo-handling facilities in the world, but the ports industry has gone through some traumatic changes in the past 20 years.

The advent of containerisation in the 1960s was a major test of ports' adaptability, as was the jump in trade with the EEC when the old Commonwealth links lessened in importance.

Along with these structural shifts has come a sharp drop in employment, as ports have re-equipped and sought to become more efficient against strong, and often subsidised, competition from the Continent.

The ports which have flourished most in recent years are on the south and east coasts, best placed for trade with the rest of Europe. Felixstowe in Suffolk, by spending £47m on expansion, has become prominent in container handling in a fairly short time. Liverpool, in the north-west, has had to come to terms with a lesser role.

Rivalling Felixstowe, but having had to overcome a year ago the burden of over-manning and outdated working practices which had left its costs too high, is Southampton, also a major cruise shipping port.

Both ports handle some of the biggest container shipping companies in the world. Evergreen of Taiwan, one of the heaviest recent investors in new ships and equipment, calls at Felixstowe, which is seeking parliamentary approval for even more expansion in later years.

Closest to the EEC is Dover, not a container port in the traditional sense, but handling a variety of roll-on/roll-off cargoes which makes it the busiest ferry port in the world. It has a heavy investment programme to extend cargo and passenger facilities.

It is Dover, and other Kent and Sussex ferry ports, which have to face the hardest challenge to the industry in the next decade — the probable building of a tunnel, bridge or combination of the two between England and France.

Dover handles around 14m passengers a year and plans to invest up to £200m in the next 15 years or so. Its traffic is set to move ahead in coming years, especially as Townsend Thoresen (part of European Ferries) is investing £70m in two new jumbo ferries and other lines are also expected to add capacity.

But a fixed link would knock a big hole in the business of Dover and the ferry companies, and both have argued strenuously against such a project. European Ferries has claimed that its new generation of ferries will operate so cheaply as to undermine the economics of a tunnel or bridge.

Most UK ports, however, are unlikely to be affected too strongly by a fixed link. It is costs which trouble most of them just now. While most ports have shed labour and invested in modern equipment to stay abreast of the competition, they are concerned about those expenses over which they have no control.

For a big container ship, the British Ports Association pointed out, light dues can cost more than £20,000 a call, even though it may have only a few hundred containers for the UK. Such charges, which could total more than £1m a year for one line, "represent a real and dominant deterrent for the shipowner and have resulted in lost trade for some of Britain's larger ports."

For the ports, such matters are vital. Ports are a key element in the transport industry, which represents some 4.5 per cent of the UK's gross national product. Total turnover of the industry exceeds £50bn a year and it employs over 1m people, including railways, roads, airlines, airports, shipping, ports and other related activities.

Mr Keith Stuart, chairman of Associated British Ports, which owns 19 ports including Southampton, said in a recent speech that some countries used transport as a lever to help overall economic growth, "even if this means massive subsidies and the over-provision of infrastructure."

Subsidies

In a dig at ABP's competitors across the Channel, he added: "A prize example of this philosophy is the policy of many north European governments towards their sea ports, which are used, as at Rotterdam or Le Havre, to generate the growth of industry and to capture freight traffic for the whole of the Continent, at a cost of billions of guilders and francs in annual subsidies."

Neither the UK Government nor the industry is likely to persuade other countries to change their attitudes to ports. But UK container ports do not want to see the big ships calling on the Continent and transhipping cargoes in smaller vessels to the UK.

Half the trade handled by British ports by value is with the EEC and 45 per cent by weight, the other main trading areas being Scandinavia and the Baltic region, and North America. Last year, a record 445m tonnes of freight were handled, 4 per cent up on 1983.

In tonnage terms, Sullom Voe in the Shetlands is the largest. But this is almost entirely in oil products, because of its position at the edge of the North Sea. Heading the list of ports in the traditional sense, handling a variety of cargoes and ships, is London.

With the rise in EEC trade and the advent of containers, the Port of London Authority has had to shift its centre of operations away from the city towards the coast. It is now based in Tilbury, Essex, 15 miles down the River Thames from London.

Whereas it employed more than 10,000 people in the mid-1970s, the numbers are now down to around 3,000. Altogether, the UK port industry employs some 12,000 people compared with 41,000 in 1973 and 82,500 in the peak year of 1951.

Despite the problems, there is plenty of investment in the pipeline. Sealink, the ports and ferry company, has ambitious plans for Harwich, slightly south of Felixstowe on the east coast, while Great Yarmouth to the north also wants to expand. The pressures to compete are becoming ever more intense.

INFRA-STRUCTURE

A reshaped telecoms system and unmatched international air services are important assets. Investment has also been taking place in ports, road and rail facilities, and a fixed link to the Continent is now in prospect.

Competition dials up new range of services

Telecoms

GUY DE JONQUIERES

DURING THE past five years, Britain's telecommunications industry has been radically reshaped by a series of sweeping policy changes unique in Western Europe.

The changes have led to the removal of the far-reaching statutory monopoly of British Telecom (BT), formerly part of the Post Office, and the opening of the UK telecommunications market to competition. The Government has licensed Mercury Communications, a subsidiary of Cable and Wireless, to build and operate a second national telecommunications network and authorised two rival consortia to run cellular mobile radio systems.

These moves, which got under way in late 1981, were followed in November 1984 by the sale to private investors of just over half the Government's stake in BT. The share issue, the largest anywhere in the world, raised almost £4bn.

The British experiment has undoubtedly produced some tangible benefits, notably by stimulating the introduction of a wider range of competitively priced products and services. But it has also been marked by considerable controversy, particularly over BT's place in the new industrial order.

By far the most striking result has been the response of BT, long a bloated and inefficient bureaucracy which treated its customers with an indifference verging on downright contempt. It had originally had been thought that the organisation would be thrust into disarray once the market was opened to competition.

Instead, BT has displayed remarkable resilience and commercial aggressiveness. It has launched a battery of new products and services backed by energetic marketing campaigns, accelerated its investment programme and begun to tackle some of its most glaring deficiencies such as long waiting lists.

It has cut tariffs for some of its most profitable operations, such as long-distance and overseas services, and is competing vigorously to win international traffic from neighbouring European countries. About a third of large US companies operating on this side of the Atlantic hub their European communications networks in Britain.

Internally, BT has reorganised its monolithic operations into decentralised profit centres and started to introduce proper financial and management information systems. Its huge staff of 230,000 has been trimmed by 17,000 people.

BT has also shown a much more demanding attitude towards its suppliers. It has begun to drive a harder bargain over price, quality and delivery and to spread its purchasing beyond traditional suppliers such as Plessey and GEC.

Tougher market conditions and the mounting development costs required by telecommunications manufacturing have begun to spur industrial rationalisation moves. In early December, GEC made a £1.18bn bid to acquire Plessey, which with GEC makes the System X digital exchange. At the time of writing, Plessey was resisting the bid.

Contrary to the Government's hopes, however, new UK manufacturers have not sprung up to take advantage of market opportunities. The main beneficiaries so far have been foreign companies, such as Sweden's L. M. Ericsson, which is supplying BT with digital public exchanges.

Further controversy has been generated by BT's £180m bid last year for 51 per cent of Canadian equipment manufacturer Mitel. Though BT insists that it is mainly interested in Mitel's international operations, the Government decided, after heavy lobbying by GEC and Plessey, to refer the bid to the Monopolies and Mergers Commission.

So far, BT has managed not only to maintain its market dominance but even to extend it in some areas. When shares in the company went on sale, critics accused the Government of doing little more than privatising a monopoly. They argued that the Government's goal of ensuring a successful sale to large numbers of investors contradicted its commitment to curb BT's monopoly and encourage competition.

No competitor of anything like equal size has yet emerged to challenge BT. However, its grip on the market may begin to loosen in the next few years as a result of the activities of the 18 month-old Office of Telecommunications (Oftel) and of Mercury.

Oftel is the government agency charged with regulating the telecommunications market and ensuring that BT and other participants observe the terms of their licences from the Government. BT's licence contains special conditions, including obligations to maintain a national telephone service and to keep the average annual tariff rise for many of its inland services three percentage points below the retail inflation rate.

Though Oftel has the power to presecute offenders and to change their licences, it is not authorised to license new entrants into the market. This authority remains with the Department of Trade and Industry, which has pledged that BT and Mercury will remain the sole operators of telecommunications networks until 1989.

Nonetheless, Oftel and its director general, accountancy professor Bryan Carsberg, have started to make an impact. Oftel's most important action so far was its ruling late in 1984 on the arrangements for the inter-connection of the BT and Mercury networks.

This was a crucial issue for Mercury. Though the company has almost completed building a modern optical fibre trunk network linking major English cities, it has few local circuits of its own. It must therefore rely heavily on using BT circuits to reach customers located far from its own trunk network.

The Oftel ruling, which met most of Mercury's demands, has transformed the company from a struggling newcomer into a vigorous business which is expected to have annual turnover of several hundred million pounds by 1990. BT, not surprisingly, was displeased, though it decided not to challenge the ruling in court.

BT has met obstacles on other fronts, too. Its proposal to launch jointly with International Business Machines (IBM) an advanced data communications network was rejected by the Government in 1984.

During the next few years, UK policy seems likely to have to continue striking a balance between the interests of telecommunications users, BT shareholders and the supply industry. Experience to date suggests that this may prove quite a testing task.

Further ahead, the prospects are clouded with many uncertainties. The Labour Party has said it will renationalise BT if it regains power though it will not be a high priority.

If the Conservative government is returned to power it will review its telecommunications policies in 1989.

هكذا من الأصل

British Airports Authority: Passengers (Year ended October 1985)	Moving annual total (000s)	Percentage change from October 1984
Heathrow	31,115.5	8.4
Gatwick	14,750.5	7.0
Stansted	521.5	1.7
South East airports	46,387.5	7.9
Glasgow	2,680.0	−1.7
Edinburgh	1,570.7	7.8
Prestwick	240.9	1.3
Aberdeen (fixed wing)	1,084.4	−0.5
Aberdeen (helicopters)	606.7	−9.7
Aberdeen total	1,691.1	−4.0
Scottish airports	6,182.7	−0.1
Total	52,570.2	6.9

Source: British Airports Authority.

On average it costs £14 an hour to run a lorry, and up to £24 an hour for heavier vehicles. Greater investment in the UK road network would reduce delays, cut costs and boost efficiency, say the haulage organisations.

Growth pattern set to continue

Air Transport

MICHAEL DONNE

ALTHOUGH A substantial series of changes is about to overtake the UK air transport industry, through the privatisation of both British Airways and the British Airports Authority, and a change in the structure, if not the direct ownership, of many local authority airports, the industry as a whole is inexorably growth-orientated.

Even during the worst part of the economic recession of the early 1980s, the effect on the industry generally was to flatten the upward movement of the traffic curve, not to depress it. Subsequently, despite many forecasts to the contrary, the growth has been resumed and for some individual months of the past summer it has reached proportions akin to those very high rates of expansion experienced just before the recession struck.

Statistics issued by the British Airports Authority, which owns seven major airports (including the biggest, Heathrow and Gatwick, as well as Stansted, Edinburgh, Glasgow, Prestwick and Aberdeen), illustrate the point.

During October, after a hectic summer, the Authority reported overall growth, compared with the same month in 1984, of 4 per cent, to close on 4.64m passengers, with Heathrow gaining 2.7 per cent to just over 2.72m and Gatwick 8.3 per cent to over 1.3m.

But for the 12 months to the end of October, the overall growth was no less than 6.9 per cent, to an overall BAA total of close to 52.6m passengers, with Heathrow gaining 8.3 per cent to over 31m passengers, and Gatwick gaining 7 per cent to 14.75m passengers.

Many other industries would appreciate growth patterns of this nature. For the air transport industry, the overall forecast is that such growth is likely to continue through the rest of the 1980s and into the next decade at an average annual rate of between 4 and 6 per cent. If this is fulfilled, the current overall total volume of UK air traffic, of well over 60m passengers a year, could well be doubled by the mid-1990s, and further expanded by the year 2000.

The Department of Transport's forecasts for future UK air travel, issued in July, 1984 (before this past year's rapid growth) indicated that by 1995, the overall volume of traffic would lie somewhere between 93.7m (the low forecast) and 133.6m passengers a year (the high forecast). For the end of the century, the low forecast was 105.8m, and the high forecast 172.8m.

It is to meet traffic growths somewhere between the two extremes that the Government, the British Airports Authority and the airlines are now effectively regearing the industry.

The changes that will take place will be substantial. Over the next few weeks, plans will be crystallised for the projected privatisation of British Airways, the national flag carrier, some time in the mid-summer of 1986, with the sale generally expected to raise around £1bn for the Exchequer.

In addition, some time in 1986, although no precise date has been fixed, the Government intends to sell off the British Airports Authority, while at the same time restructuring it into a holding company with seven separate subsidiaries each running one of the Authority's seven airports.

Current estimates put a capital value on the privatisation of the Airports Authority at £500m, but this figure seems low in the light of the substantial sums, running into many hundreds of millions of pounds, the Authority is spending on the development of its airports—the new Terminal Four at Heathrow, the new Terminal Two at Gatwick, and the development of Stansted, in Essex, into initially an airport capable of handling 7m to 8m passengers a year, but with capacity up to 15m a year, and the longer-term possibility of eventual growth to 50m, although the latter is by no means certain and may never even be attempted.

At the same time, the Government intends to restructure the ownership of many of the 23 local-authority-owned airports in the UK, including the biggest, such as Manchester, Birmingham, Luton, Leeds-Bradford and others, by obliging them to become public limited companies. Initially, the Government will permit the existing local authorities to own the shares in these companies.

Profitable

Eventually, however, it has made it clear that it would like to see the local authorities surrendering some part of their shares to private investors—companies in local industry, for example—so that a wider spread of regional airport ownership is achieved, thereby helping to remove those airports from the bureaucratic hand of local government.

Whether these measures will eventually result in a more dynamic, profitable UK air transport industry remains to be seen. Certainly, on present ratings, British Airways is one of the most profitable airlines in the world, with £205.9m net in 1984-85, while the British Airports Authority has been consistently profitable throughout its history.

Many of the local authority airports, however, either lose money or are only marginally profitable and it is to improve this situation that the change of ownership and the potential injection of private capital, is planned.

The extent to which foreign investment capital will be permitted in either British Airways or the British Airports Authority, or in the local authority airports, remains to be seen.

It seems likely, however, that some limits will be placed on the participation of foreign capital and certainly that the Government, as with other state organisations privatised to date, will retain one "golden" or "blocking" share in both BA and the BAA, so as to ensure the long-term power of veto over any foreign take-over bids.

In any circumstances, British Airways and the British Airports Authority would be attractive investments—highly profitable organisations in a long-term rapidly expanding market, and with both organisations possessing vigorous and competitive programmes for their future development.

For the rest of the UK air transport industry, the outlook must be more difficult to assess, because of the nature of their operations.

There are close to 40 such airlines, after the main flag carriers, British Airways and British Caledonian Airways (which itself intends to seek a market flotation in 1986).

While some of these undertake domestic and international scheduled operations, the majority of them are non-scheduled operators, with a heavy bias in the inclusive tour holiday flying market, which is open to considerable competition and thereby sharp fluctuations in fortunes.

Some of these airlines are highly successful and profitable, others only marginally so. All of them expect to share in the expansion that most believe lies ahead. Some of the most successful, such as Britannia, Monarch, Air Europe, have already invested heavily in new jet equipment, which is enabling them to hold their own in an increasingly competitive market-place. Others have been finding the going tougher as competition has become fiercer and are likely to find it ever more so in the years immediately ahead.

It is the latter carriers who may find it difficult to invest in the jet equipment they will need in order to hold their own in the competitive battles that lie ahead and who could well be targets for foreign investors.

Tougher times for hauliers

Road Transport

PHILLIP HASTINGS

INCREASING pressures from a wide variety of sources are making life ever more complicated for the British road transport industry.

Long gone are the days when virtually the only qualification needed by a haulier was the ability to drive and maintain one or more trucks. Now, any haulier looking to run a successful business needs in addition to be familiar with a range of different domestic and EEC laws, finance, insurance, economics, industrial relations and security.

The sort of competitive pressures now being faced by road operators were highlighted in a survey carried out by the Freight Transport Association which represents the transport interests of some 14,000 companies throughout trade and industry, companies which themselves often operate large fleets of commercial vehicles on an own account basis.

The survey set out to study the changes in road haulage rates over an 11-year period between 1974 and 1984, using as an example the case of a 20-tonne consignment moved from London to Birmingham.

The actual figures, adjusted for inflation, showed that the rate per tonne within that overall consignment in fact dropped substantially during the period under study, while costs were rising.

In 1974 the FTA survey showed a rate of £9.5 per tonne, in 1979 a rate of £8.3 and in 1984 £6.8—representing a fall in real terms over the 11 years of 27 per cent.

Using Department of Transport figures, the FTA also went on to spotlight a number of other trends in the road transport sector, all of which highlighted the increasing economic pressures on those moving freight by road.

For example, said the FTA, there had been a large increase in the volume of consignments transported by road, from 89.9bn tonne/kilometres in 1974 to 106.9bn tonne/kilometres in 1984. During the same period, inflation-adjusted figures for expenditure on road freight showed a marked drop, from £25.9bn to £20.1bn.

Reduction

Using those figures, the FTA calculated that expenditure per tonne per kilometre, again allowing for inflation, dropped from 29p in 1974 to 19p in 1984.

"Those figures show that over the period studied, there was a remarkable reduction in unit costs for road transport. At the same time, they give the lie to accusations that road haulage is inefficient," said the FTA's director of planning, Richard Turner.

The increase in maximum vehicle weights from 32.5 tonnes to 38 tonnes in 1983 has also been an important factor in improving efficiency. By the end of 1984, nearly 20,000 38-tonners had been registered, about 80 per cent of them on the public haulage side rather than with own account operators.

"In 1984, those 38-tonne vehicles accounted for 18 per cent of all goods moved by road within Britain so they really are being used very efficiently and have already proved how much they were needed. Those 20,000 vehicles did the work of 24,000 32.5 tonners, based on the average work they were involved in," Mr Turner said.

"Also in 1984, the fact that we had 20,000 38-tonners saved nearly £33m in road wear costs and industry some £165m in operating costs."

Currently, hauliers are pressing for the 38-tonne maximum lorry weight to be increased to 40 tonnes but there are many other areas of legislation which they claim need to be changed further to boost efficiency in the road transport sector.

Recently, for example, the EEC Council of Ministers agreed to amend the rules on lorry drivers' hours to lengthen the legal driving day from eight hours to nine, with an improved limit for continuous driving.

However, the FTA believes that the rules will still remain a "complex tangle" unless the British Government takes action to wipe out the remaining 1968 Transport Act rules which were superimposed in Community law.

Investment

Both the FTA and the Road Haulage Association which represents haulage companies also argue that there needs to be greater investment in Britain's road network to cut down on the delays which push up costs and reduce the efficiency of road transport operations.

The FTA claims that on average it costs £14 per hour to run a lorry, £24 an hour for the heaviest vehicles. In national terms, a 20-minute delay on all freight traffic would cost the economy £2.25m, it claims.

Other factors worrying the road transport industry, hauliers and own account operators alike, include frequently changing fuel costs — fuel is reckoned to account for 24 per cent of hauliers' overall costs. The RHA protested that a recently-announced increase of 1.55p or 1.6p per litre in the price of scheduled derv followed seven increases and four decreases during the course of 1984.

Also worrying road transport operators are the increasing number of lorry bans being imposed. The doomed Greater London Council, for example, is due to introduce its ban on lorries over 16.5 tonnes gross weight at night and weekends on January 31.

One other increasingly important factor as far as the future shape of Britain's road transport industry is concerned involves the changing patterns of distribution operations, particularly where High Street deliveries are concerned.

The trend towards retailer-dictated distribution set-ups with their large-scale, supposedly super-efficient systems, combined with the ever more complex nature of road transport operations, is leading more and more industrial companies to opt out of owning their vehicles or using haulage operators. Some have changed over to contract hire arrangements, others are now going a stage further and pulling out of transport operations altogether, handing over their whole distribution operation to third party specialists.

Faced with the prospect of more and more general freight traffic being handled by large distribution organisations, many hauliers are increasingly looking either to diversify their operations, for example by acquiring warehousing so they can undertake more general distribution activities, or to move into specialist sectors, for instance by providing express delivery/parcels services.

Support for innovation given priority

BUSINESSMEN THINKING of building a factory, starting a company, or expanding an existing facility in Britain will find no shortage of advice or guidance. Help is at hand from central government (largely through the Department of Trade and Industry), from local authorities (which are taking an increasingly active role in the regeneration of local economies), from regional development bodies like the Scottish Development Agency and the Welsh Development Agency, and from the private sector in the form of banks, merchant banks, and the growing numbers of venture capital funds.

Support for innovation is among the Government's specific priorities. There is, for example, a scheme which provides up to 25 per cent of eligible costs to encourage approved R and D. There is the Alvey Programme which covers collaborative research in advanced information technology between industry, academic institutions and other research organisations; and there is the European Strategic Programme for Research and Development in Information Technology (ESPRIT) which was adopted by the European Community to support R and D programmes in microelectronics, software technology, advanced information technology, office systems and computer integrated manufacture.

Business problems

The DTI, meanwhile, awards grants to help companies obtain advice on business problems and opportunities, and to provide information. Many of these services, such as those for design, manufacturing and quality assurance, are directed towards small and medium-sized businesses, but the support is available to all firms where advanced manufacturing technology, biotechnology and microelectronics applications are concerned.

Companies looking for a package of special incentives may well turn to one of the regional development agencies. The Welsh Development Agency, founded in 1976, was set up to put new life back into the Welsh economy and improve the business environment in Wales. With 20m sq ft of space, the Agency can provide a wide variety of

Sources of aid

TIM DICKSON

factory units; it offers equity and loan funds on commercial terms; and its Business Development Unit specialises in management and technical advice to firms with fewer than 50 employees.

The Scottish Development Agency supplies equity and loans and aims to bridge the finance gap or complement private sector sources. Its electronics division helps evaluate and set up new high technology businesses and the SDA keeps an investment register to enable businesses with problems to find stronger partners.

The Northern Ireland Industrial Development Board (IDB) helps clients raise finance and other forms of public sector assistance; finds new products for Northern Ireland-based companies; and introduces overseas companies to local firms with a view to engaging in a joint venture or licensing agreement.

As well as the help available from the national government and regional bodies, businessmen should bear in mind the incentives offered by local authorities. The spectrum of schemes is constantly changing being influenced by budget constraints—and most of them are targeted on the small locally owned business—but the powers of councils are not insignificant.

They can, for example, make loans of up to 90 per cent on the secured value of buildings, dispose of land below its market value, and invest local authority pension funds in local businesses. There is also the general power of Section 137 of the 1972 Local Government Act under which grants and loans can be awarded to a total value equivalent to a 2p rate in the pound.

Several local authorities — notably the Greater London Council and the West Midlands —have established substantial enterprise boards under Section 137. Typically they offer a mix of loan and equity to medium sized local businesses and are aimed at breathing new life into established businesses and stimulating employment.

Enterprise boards are distinct from enterprise agencies, which are often supported by local authorities but which are typically local partnerships between councils, companies in the private or public sector and the professions in a given area.

Initially, enterprise agencies concentrated on encouraging the growth of successful small businesses through basic management training and advice — they do not lend or invest money — but some have recently expanded into the provision and management of small business workshops, agency work for the Government's Youth Training Scheme, further involvement in training and education, and closer liaison with the Government's Information Technology Centres.

Private sector

There are between 150 and 200 enterprise agencies — their effectiveness varies depending on the quality of the director but the chances are that any one agency will be well informed about the best sources of finance and property in their locality.

In the private sector, bank lending to small and medium sized businesses is dominated by the four major high street clearers, with the UK merchant banks and the increasingly competitive and aggressive US banks offering more sophisticated and individually tailored lending packages.

One of the most significant developments in Britain in the last five years is the expanding role of venture capital. Whereas in 1979 the long-term finance market for small companies was dominated by ICFC (now part of the Investors In Industry Group) with perhaps 15-20 others, there are probably at least 150 organisations now which call themselves venture or development capital funds.

Several have international connections (mainly American), including Abingworth, Advent, Alta Berkeley, Alan Patricof Associates (APA), Barings and Hambrecht and Quist, Citicorp Venture Capital, Newmarket, Thomson Clive and Venture Founders. Few of these specialise by sector or "round" of finance, taking in everything from the pure start-up to the mature management buy-out.

One scheme that has had a major impact is the Business Expansion Scheme, under which individuals in the UK can gain income tax relief at their highest rate for qualifying businesses up to £40,000 per annum until April 1987. Companies are eligible if they are "unquoted", if they carry on a qualifying trade (which includes most manufacturing but excludes financial services), and if they are not controlled by another company.

The range of advice and assistance available has expanded rapidly, with national, regional and local government, the professions and self-help groups all keen to assist potential investors.

German Direct Investment in UK

Total investment until December 31 1984 (net transfers since 1/1/1952)

	DM (m)
1965	142
1970	594
1971	714
1972	754
1973	862
1974	1,093
1975	1,709
1976	1,965
1977	2,115
1978	2,358
1979	2,443
1980	2,614
1981	2,909
1982	3,960
1983	5,018
1984	6,109

Source: Federal Ministry of Economics, Bonn.

Keeping Europe's door ajar

The Japanese connection

ROBIN REEVES

A SENIOR Japanese executive working in Wales was recently asked what was required to encourage more Japanese manufacturing investment in the local economy. "An increase in EEC trade restrictions," he replied mischievously.

For all the lip service that is paid regularly in the recessionary climate of the 1980s to the importance of maintaining free trade between OECD economies, the fact remains that a high proportion of Japanese inward investment into the UK and Europe has been initiated by EEC trade restrictions, real, threatened or feared, rather than the growing inefficiency or impracticability of supplying expanding UK and EEC markets from Japan.

There are a number of notable recent examples. No inward investment project was fought for more keenly by UK local authorities than the Nissan vehicle assembly plant, now under construction in the north east of England. The venture promised eventually to create as many as 5,000 jobs, making it the largest job-generating manufacturing project to have appeared on the UK inward investment scene in recent times.

But it is debatable whether Nissan would have contemplated making the investment in the first place but for the "voluntary" ceilings on Japanese car imports into the UK and other EEC markets and the restraint this has placed upon the company's growth.

Similarly, Komatsu of Japan, now the world's second largest construction machine maker, announced last month (December) that it was investing £12.3m in the former Newcastle-upon-Tyne premises of its main rival, Caterpillar Tractor of the US, to produce hydraulic excavators and wheeled loaders. Caterpillar abandoned the factory last year creating 1,000 redundancies.

Komatsu acknowledged that its decision to manufacture in Europe had been influenced by the earlier imposition of anti-dumping duties upon its export of excavators to Europe. The company was at pains to emphasise that the UK content of its machines would rise from 60 per cent to 80 per cent within three years.

In manufacturing, the Japanese are setting management and performance standards which UK-based companies now seek to emulate.

In another example, continental EEC machine tool producers lobbied hard last year (1985) to prevent Yamazaki, the Japanese machine tool producer, from building a £29m automatic plant at Worcester to produce lathes and machining centres. In this instance, the company sought to allay the fears of its continental competitors by suggesting that the new plant may export its finished products to Japan.

Generally speaking, the importance of trade restrictions as a factor encouraging inward investment is sometimes lost sight of in the hard sell, promotional battles between different parts of Britain and their emphasis upon the superiority of communications infrastructure, excellent labour relations, etc.

This observation is particularly true of Wales which, for many years now, has been seeking to attract as much inward investment as possible, not only from abroad but also from other parts of the UK. This has been in order to replace the declining job opportunities in its traditional industries, notably coal, steel and agriculture.

The net result is that Wales, these days, boasts over 200 overseas-owned companies of which just over half are from the US and, to date, 10 are from Japan.

Wales's two most recent Japanese arrivals are the Sharp Corporation and Brother Industries which both opted for the Wrexham area of north Wales to establish major manufacturing facilities for products which, from the point of view of EEC-Japanese trade relations, had become sensitive items; namely video tape recorders, electronic typewriters and microwave ovens.

A decade ago, Sony and Matsushita were among the pioneers of Japanese inward investment into Wales, when they established television manufacturing plants at Bridgend and Cardiff respectively, projects again inspired by EEC restrictions on certain television imports.

But in many ways the most interesting case study has been Hitachi which first showed interest in investing in the UK in 1977, proposing a new TV plant on a greenfield site in the north east of England. However, following a loud outcry from what remained of the British domestic television manufacturing industry, Hitachi felt obliged to withdraw its proposal.

At the time, this incident was regarded as very damaging to the UK's general effort to win more Japanese inward investment. But two years later, Hitachi was persuaded to form a joint venture company with GEC to take over the running and modernisation of GEC's TV manufacturing plant at Hirwaun, Mid Glamorgan.

This tie-up appeared an ideal solution to the problem of international economic and technological adjustment in a major industry. The benefit of Japan's more advanced television technology was to be applied to modernise a significant slice of British manufacturing capacity, in a way which would safeguard rather than undermine the jobs of the 2,000 workers then employed at Hirwaun.

In the event, the marriage was not a success (as has been the case with other UK-Japanese joint manufacturing ventures) and last year terms for a divorce were agreed; though not before there had been a series of redundancies, short-time working, a pay freeze and more than one strike.

Hitachi, having bought out GEC's share, has since proceeded to introduce the full paraphernalia of Japanese management style and practice, including the removal of all demarcation, and the granting of single union negotiating rights—in this instance to the electricians' union, the EEPTU.

The union, in turn, accepted the introduction of pendulum arbitration—the controversial so-called no-strike agreement whereby in the event of a dispute an arbitrator will recommend either management or union position without seeking a compromise—and, more unusually, a further 400-plus redundancies.

However, Hitachi's Hirwaun plant now appears to have turned the corner. Recruitment has recommenced—it is in the process of taking on 200 new staff—and a diversification into the production of video recorders has been introduced.

Whatever the motivation or inspiration, Japanese manufacturing investment has been widely welcomed in Wales. It has offered a source of secure and growing employment in a jobs-hungry economy. It has also helped to establish new standards of manufacturing efficiency and wise investment.

Since they first put down roots, most Japanese companies in Wales have undertaken regular investment to increase and upgrade the local content of their products, and in other instances to expand their product range, increasing the number of secure jobs available. In short, they have set management and performance standards which many other Welsh-based companies now seek to emulate.

Advertising

TOP TEN

Name	Billings £m
1 Saatchi & Saatchi	162.00
2 J. Walter Thompson	142.60
3 Ogilvy and Mather	110.00
4 D'Arcy MacManus Masium	107.00
5 Dorland Advertising	102.00
6 Leo Burnett	82.40
7 Foote Cone & Belding	81.96
8 McCann-Erickson	78.70
9 Boase Massimi Pollitt	76.90
10 Young and Rubicam	76.72

Source: Campaign (Jan 1985).

Maurice (left) and Charles Saatchi: dynamic management has put their agency at the top of the league.

PR Consultancies

TOP TEN

Name	Fee income £m
1 Good Relations group	5.1
2 Charles Barker Group	4.6
3 Shandwick Group	2.9
4 Burson-Marsteller	2.8
5 Dewe Rogerson	2.1
6 Welbeck	1.9
7 Hill & Knowlton	1.8
8 Daniel J. Edelman	1.6
9 Kingsway	1.5
10 Carl Byoir	1.4

Source: PR Week (Sept 1985).

Emphasis on strong public relations

Advertising

DAVID CHURCHILL

THE ADVERTISING and public relations business in Britain have stayed remarkably buoyant during the past few years in spite of the tougher economic conditions which, in the past, would have led to companies cutting back on their promotional spending.

During the 1980s British companies have come to realise that when their markets are under pressure, it is even more important to maintain market share through advertising and PR activity. It costs more — and is less certain — to rebuild a brand's strength after it has lost market position.

Yet the tight financial controls employed in many companies has meant that PR has actually fared better than advertising in most years. Companies with advertising budgets running into the millions have found that even a small increase in PR expenditure—where most account fees are far less than £100,000 — can make a significant difference in achieving marketing targets.

Not surprisingly, Britain's PR industry is enjoying its best-ever year with the 110 members of the main trade association — the Public Relations Consultants Association — earning over £40m in direct fees. British companies are estimated to spend up to £500m in total on PR in all its forms—including in-house departments and direct print and promotional expenditure.

The growth of PR activity in the UK has even outstripped its popularity in the US. In 1979 in America, some 78 per cent of the top 500 companies took PR consultancy advice, compared with only 21 per cent of the top 500 UK companies. By 1982, the same comparison showed 82 per cent consultancy use in the US and 36 per cent in the UK.

By 1984, however, the UK was catching up fast. Consultancy use by top companies in America rose to 84 per cent while in Britain the figure rose to 69 per cent. In fact, 45 out of the 50 largest companies in Britain now employ a specialist PR consultancy.

Why is PR — especially consultancy PR — doing so well? One reason is that consultancies offer a more extensive — or additional — service than traditional in-house departments and thus companies are more willing to embrace PR.

Generally, however, the boom in PR is ascribed to the growing awareness of companies of its value. "As the commercial world becomes more complex, so does the need to get the message across," argues Mr Tony Good, chairman of Good Relations, the only PR consultancy at present with a full quote on the London Stock Exchange.

Adele Biss of Biss, Lancaster also suggests that PR is a more effective way of reaching target groups such as consumers, businessmen, journalists, environmentalists, and so on. "There are a growing number of these groups who are articulate and influential and clients want to reach them," she says.

The growth of PR activity over the past year or so also owes much to first-time users of PR, especially in the areas of financial, corporate, and high-technology public relations. Marks and Spencer, for example, recently appointed Valin Pollen to advise on financial PR — the first time that Marks had used an outside consultancy.

Kevin Traverse-Healy, the immediate past president of the Institute of Public Relations as well as working in consultancy PR, points out that "the spate of merger activity has shown up the lack of corporate awareness by a number of major companies."

The growth of PR is, not surprisingly, attracting the attention of the major advertising agencies who not only see PR as a threat to traditional advertising revenues but also as a means of capitalising on a growth sector.

The Wight Collins Rutherford Scott agency, for example, acquired Biss Lancaster earlier this year in a deal which could be worth up to £6.5m. Saatchi and Saatchi recently made its much heralded move into PR with the takeover of Kingsway PR.

The Foote, Cone, and Belding advertising agency already owns two PR companies—Carl Byoir and Welbeck—while some other PR consultancies, such as Charles Barker, also have extensive advertising interests from other parts of their group.

Two major consultancies — Hill and Knowlton and Burson-Marsteller — are part of US communications groups.

The advertising agencies themselves had a good year in 1984 which continued throughout the past 12 months. Total advertising expenditure in 1984 rose to just over £4bn for the first time, a 13 per cent increase on 1983. Advertising also captured a record 1.49 per cent of the gross national product.

In part this buoyancy was fuelled by the development of more television time through Channel 4 and breakfast television and the advent of newcomers to advertising, notably professions such as accountants, architects, and opticians.

Television, however, has had something of a difficult year because of weak marketing and falling audiences. But it remains the second largest advertising medium, accounting for some £1.245bn worth of advertising expenditure.

Press was the largest overall sector and accounted for some £2.558bn of the total advertising spent in 1984. The regional press remains bullish, perhaps encouraged by some disenchantment by advertisers with the claims of free-sheet newspapers.

One growth area is direct marketing, once the cinderella of the advertising world but now rapidly growing up. Direct marketing, of which the bulk is direct mail, has gained from the trend towards more specific targeting of communications—either to the consumer or to other businesses.

The finance sector in particular has woken up to the potential of direct marketing. Insurance companies, credit cards, and unit trust funds are becoming more sophisticated in mailing to prospective buyers of financial services.

The Post Office has been the major beneficiary of the growth in direct marketing, earning more than £200m in extra postal revenue according to trade estimates. The number of direct mail shots has more than doubled over the past decade, with a big switch towards consumer mailings and away from business-to-business mailshots.

Consumer concern with so-called "junk" mail has prompted the industry to try to clean up its image with various schemes—moves that have helped create a firmer foundation for the sector.

A retail lesson in meeting aspirations

BRITAIN HAS arguably been slower than other countries in realising the vital role that marketing plays in achieving economic success—but it is rapidly catching up and embracing marketing with a vengeance.

Marketeers within UK companies are gaining the status that used to belong exclusively to accountants, engineers, or lawyers. As more executives rise to the top from the marketing function, so the value of that discipline is making itself felt.

This new pre-eminence for marketing is nowhere more obvious than within the retail sector which has proved to be one of the most dynamic areas of UK business in the 1980s.

"Prosperity in retailing depends upon marketing-based innovation," says Mr Richard Eassie, a leading marketing consultant. He believes that the range of new methods of marketing in retailing is considerable. "There is market segmentation by age, as in many clothes shops such as Next or Principles, or by product as in the arrival of stores specialising in everything from health foods to computers."

Retailers have had to respond to changing market conditions brought about by the recession and by the fall in the inflation rate in the past few years. During the 1970s, when inflation was high, most retailers had a relatively easy time since stocks held appreciated rapidly in value and consumers came to expect price rises.

However, when the inflation rate fell retailers had to fight much harder to maintain and enhance their market share. They were operating, moreover, against a background of declining real consumer expenditure going through traditional High Street shops.

In 1950, for example, some 53 per cent of consumer expenditure went through traditional shops. By 1980 that figure had fallen to 43 per cent and is currently estimated at 39 per cent.

What this has meant is that those retail operations which have developed new retailing formulae to meet the needs of the 1980s have proved most successful. Companies like Habitat/Mothercare, the Burton group, Tesco, J. Sainsbury, and Marks and Spencer have all capitalised on changing consumer tastes.

Prime among these changing tastes has been the increased consumer awareness of shopping as a statement of their lifestyle. The key group with money to spend consists of young couples with children and owning their own home. These 25 to 45 year-olds come from the C1 and C2 socio-economic classes—broadly what used to be called the upper working and lower middle classes.

What successful UK retailers have tapped is the aspirations of these consumers—aspirations to achieve a more attractive way of life through buying from certain stores.

Marketing

DAVID CHURCHILL

Many of these retailers have used design to get their message across. About 75 per cent of British retailers questioned in a recent survey have adopted a new store design format within the last two years. The life expectancy of such new looks, however, is as low as three years for fashion shops — although slightly longer for other types of retailer.

Aspirational shopping is not the only key change in British retailing in the 1980s. The more affluent consumers are increasingly seeking to avoid crowded high streets with poor car parking facilities. Instead, they prefer to shop at large out-of-town superstores or hypermarkets where parking is easier.

But the traditional high street is likely to stage something of a comeback as the place for specialist shopping, such as fashion boutiques or up-market food shopping.

Small neighbourhood convenience stores based on US-style operations are also becoming increasingly popular. They will particularly benefit from seven-days-a-week trading following the expected relaxation of shop opening hours in the UK later this year.

British retailers have until now been relatively slow to grasp the full benefits of new computer and electronic technology for use in stock control and at the point of sale. Yet there are signs that they are at last beginning to embrace new technology in a big way.

"The cost of retail computer technology has fallen by some 30 per cent in the past three years and this is fuelling what we predict as an explosive growth in electronic point of sale for the rest of the decade," claims Mr Richard Snook, ICL's manager in charge of its retail division.

Laser-scanning checkouts are expected to become the norm in most large supermarkets by 1990 while by that time there are expected to be several experiments in operation for electronic funds transfer at the point of sale—automatic debiting of customers' bank accounts when they pay at the checkout.

Teleshopping at home via viewdata systems or home computers will also have become established by the early 1990s, although this is likely to appeal only to a minority of consumers.

Other marketing trends include the cross-selling of financial and other services, previously outside the scope of what people would buy from a shop.

Apart from these retail and consumer marketing trends, what is the state of the marketing infrastructure in the UK? Britain as a conference and exhibition venue is becoming increasingly popular—not only because of its traditional culture and attractions as a country but also because of the improved facilities.

Spending at conferences in Britain is now running at about £30 per head per day, against £26 in 1984, and £20 in 1982.

The National Exhibition Centre, just outside Birmingham, has become a popular international venue for conferences and exhibitions. Last year it accounted for about 37 per cent of spending on exhibitions by British companies and considerably more if overseas ones are taken into account.

Apart from the NEC, there are established exhibition venues such as Earls Court and Olympia, as well as newer ones such as Harrogate and the Barbican.

Some 680 large-scale conferences are held in the UK each year, with about 150 attracting 1,000 delegates or more.

Pendulum swings in favour of the tenant

Property

MICHAEL CASSELL

ONCE THE decision in principle to establish a business in Britain has been taken, the practicalities of finding property are not far behind. Where to locate, what type of accommodation to occupy, the tenure options available, all require detailed consideration and speedy decisions.

The first conclusion likely to be arrived at by many incoming companies is that the commercial landlord in the UK is used to having everything his own way.

Tenants are generally expected to sign long leases — 25 years is the norm — and any rental agreement is unlikely to include a break clause, meaning that a decision to leave before expiry of the lease will entail finding someone to take it over. They will also be responsible for fully insuring and maintaining their property.

Such liabilities are long-enshrined in the British commercial property market's structure but can come as a rude shock to occupiers used to operating in regions of the world where the landlord has not been quite so all-powerful.

From now on at least, newcomers may find that the pendulum has begun to swing more in their favour. The recent, generally weak state of the UK commercial property sector, in which oversupply has stifled rental growth, means that the tenant has enjoyed one of those rare periods when he can at least start to call the tune.

As a result, shorter leases — down to five years — are becoming increasingly implemented and break clauses too are beginning to work their way into letting agreements. It would be an over-exaggeration to suggest that they have become normal and the institutional landlords, who represent a major force among landlords, remain reluctant to abandon their old habits. Even so, the picture is changing.

An increasingly significant trend is the development of office buildings designed for freehold, rather than leasehold tenure. Years of landlord dominance has encouraged the shift towards outright ownership, for precisely the same reasons that have seen owner occupation in the housing market rise in recent years from around 50 per cent to 63 per cent.

Freehold ownership provides a company with an enhanced ability to decide its own future and, most importantly, gives it an asset base which can prove very useful when it wants to borrow money. The occupier, it is true, will be faced with all the overheads and management responsibilities which go with ownership but they would still have to be confronted if the property was held on a long lease.

Most freehold schemes have been confined to the smaller end of the office market, though this type of property could well appeal to the company involved in a start-up operation. The major snag is that few of the newly-developed schemes are likely to be centrally located, given the traditional landlords' reluctance to give up freeholds to occupiers in prime locations.

Accommodation

Irrespective of the choice of tenure, the latest generation of development in the UK is providing a range of modern business accommodation which, until recently, the UK development industry had not considered necessary.

The all-important influence of development trends in the United States has begun to have an unmistakable impact on the pattern of commercial development in the UK, with flexible, so-called "high-tech" space mushrooming in attractive campus developments around the country.

In the development industry's determination to provide the latest and highest standards of accommodation, building classifications have become somewhat confused but the overall intention has been to provide a flexible mix of multi-use accommodation designed to cope with an expanding company's space requirements and product evolution.

The natural magnet for development has, inevitably, been the southern half of the country, around the Greater London area, out along the Thames Valley and, to a more limited extent, north east of the capital towards Cambridge.

The geographical advantages of the region, close to Channel ports and airlinks (with the growing prospect of a fixed link to Europe) provide the natural incentives for property development but the pressure on available development space in the most popular areas has inevitably made accommodation increasingly expensive. So while rents in London can exceed £35 a square foot, good quality accommodation in some major, provincial cities can be had for under a tenth of that figure.

Companies locating in the south east must be prepared to pay a large premium for doing so and many, depending on the nature of their business, might do worse than consider locating further afield, possibly to one of the major towns which have been pursuing aggressive marketing campaigns designed to extol their own particular virtues.

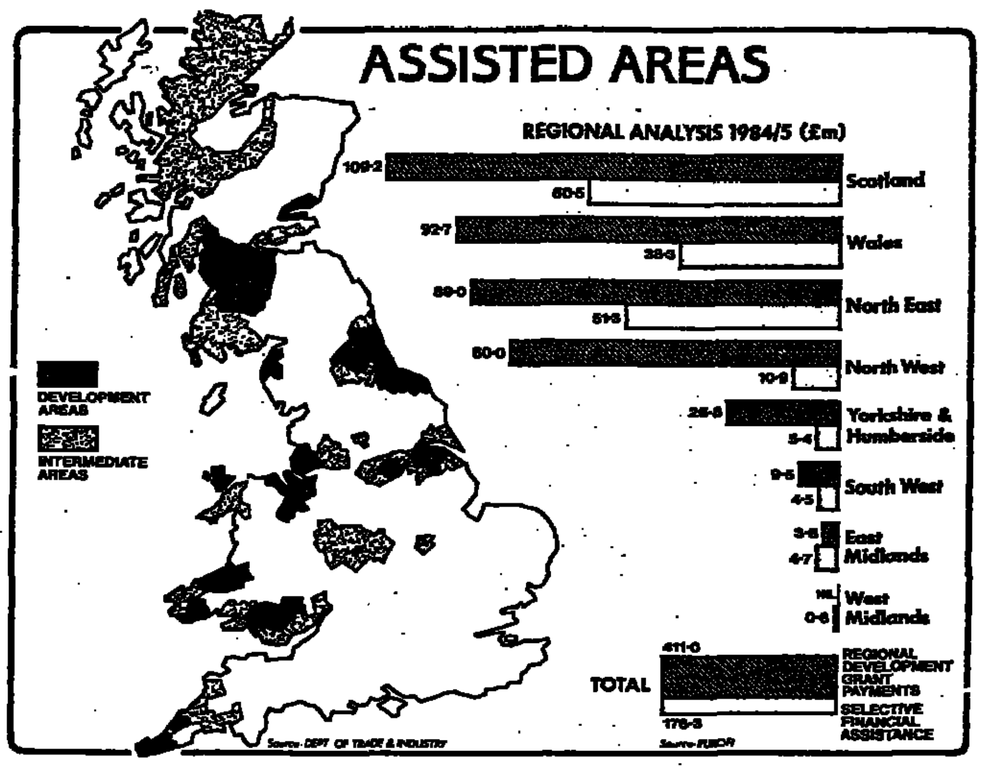
There can be significant financial incentives available for space takers prepared to succumb to the blandishments of those towns vying for new businesses. Even a potted description of the incentives available from the UK Government and from EEC sources runs to 150 pages but detailed advice is available from a variety of property-oriented organisations, such as English Estates, the Development Commission or the Council for Small Industries in Rural Areas.

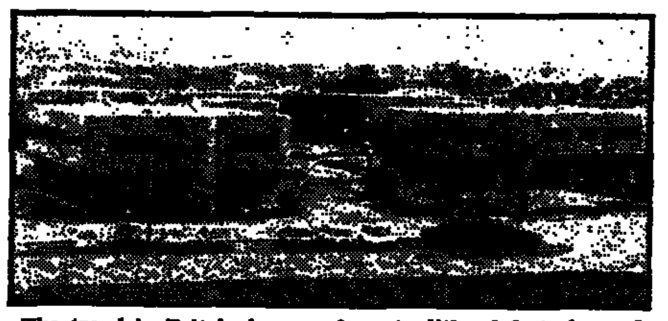
A major, new initiative on the part of the Commission for New Towns, which is charged with the task of selling off the property assets of 12 mature New Towns, could help the newcomer decide on the most appropriate location.

In November, the Commission opened its own shop window in London's Piccadilly. According to Sir Neil Shields, chairman of the Commission: "Any company looking for the ideal site for expansion, relocation or even its first premises, can come to our offices at Metro House and find all the answers in one place. It is really a 'one-stop' shop because we have a unique data bank and specialist staff who will give unbiased advice and assistance."

Callers can hardly expect to be recommended to locate somewhere beyond the 12 towns on its books but, within the confines of its brief, the Commission's information centre can be expected to provide good advice on the complete range of opportunities and properties available. The Commission's towns extend from Harlow and Hatfield, as far as Skelmersdale and Central Lancashire.

The Commission refutes any suggestion that, spurred on by a government which has handed out huge discounts to buyers of public sector housing, it is selling off assets at anything other than full market values. But with a land and property portfolio worth over £1bn and ready for sale, potential buyers can rarely have had such an impressive catalogue to choose from.





The trend in Britain is away from traditional factories and warehouses, and towards space that can be used for production, offices or research, in line with modern industry's needs. This scheme in Swindon was speculatively developed by Royal London Mutual Insurance.

One-stop shopping for necessary advice

Surveying Services

MIRA BAR HILLEL

MANY FOREIGN companies seeking to set up business in the UK will already have some knowledge of the services they may expect to find here, especially from chartered surveyors, says David Yorke, vice-president of the Royal Institution of Chartered Surveyors (RICS) and himself a practitioner. About one in 10 of the holders of the chartered surveyor qualification actually practice outside the UK.

Their activities span the world and cover 145 countries but, says Mr Yorke, they will be most readily recognised by businesses coming from France, Belgium, the Netherlands, Germany, North America and the Far East, where many UK practices have active branch offices.

Although the RICS is divided into seven divisions, in an attempt to make their range of skills more easily understood to overseas clients the work is set out under three main headings: surveying and mapping; construction economics; and land administration. The RICS's current directory of international practices lists no fewer than 25 separate activities under these groupings.

For the overseas investor in this country, Mr Yorke says, chartered surveyors provide the security of a profession in which qualification requires an exacting educational programme of university degree standard, followed by two years of approved practical experience leading up a test of professional competence. The institution itself sets and monitors high standards of practice and ethics, including a programme of continuing professional development which British architects have yet to adopt. From the first of this month it became compulsory for members to carry adequate professional indemnity insurance.

Practices come in all sizes, but the overseas investor should have no difficulty in obtaining most, if not all, his professional advice in property matters "under one roof." In this respect Britain differs from many other countries.

A typical surveyor can look after a foreign businessman from the time he decides to consider a commercial or industrial development in this country to the day he occupies the premises—and beyond. His first advice will probably relate to the most suitable site for the client's needs. This will take into account fundamental considerations such as location—both from the point of view of accessibility to ports, airports and motorway and for general distribution needs; other communications potential; and availability not only of labour in general, but of the kind of labour required, which could be highly specialised is much sought after.

Another factor in the choice of location unique to Britain is the network of national and local incentives in the form of direct grants from local or other authorities, or in the form of planning "holidays" and rates reductions as in the case of enterprise zones. Rates—which are property taxes—do not exist in some countries and take different forms in others. Surveyors can explain the differences and how the levels of rates in different areas can affect long-term location planning. The system of grants and incentive can also change and up-to-date professional advice can save thousands of pounds.

The next stage is the evaluation and negotiation leading up to site acquisition—a process often entwined with applying for and obtaining planning consent. The British planning system is unique and most overseas investors would, without detailed professional guidance and preparation, find it almost impossibly complex, time consuming and frustrating. Even the warning of possible long delays could help the investor avoid serious planning pitfalls.

The surveyor could also get involved in negotiating finance for a project in the case of a new building—or indeed he may advise the client that rented or leased accommodation might be more suitable. In which case building surveying skills may well be required, as once a property is located which appears suitable in principle, its structural condition and general state of repair will have to be assessed carefully, as well as its legal and planning status.

Should renting turn out the best option, a surveyor will negotiate his client's lease to his best advantage. He may then offer to manage the property on his behalf as well as to let any surplus space which may become available.

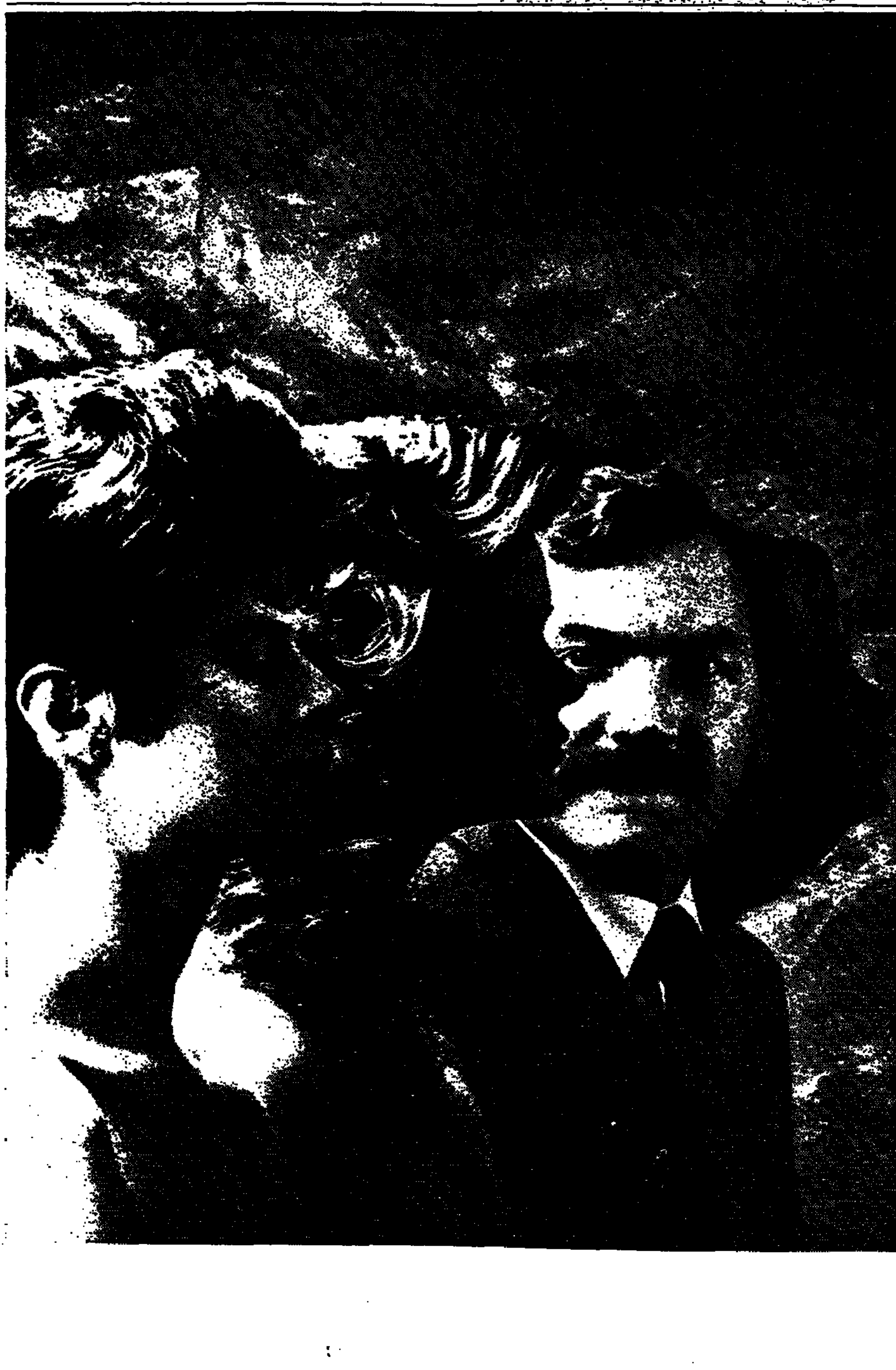
Many foreign investors wish to build their own properties. Surveyors can help here, too, in their growing involvement with project management. The cost of building work can be estimated in advance—British quantity surveyors have been doing this for years, but building surveyors and others are now becoming increasingly interested in this speciality and finance can be arranged through one of many financial services techniques which exist involving mortgaging and sale and leaseback—all depending on the client's financial status and preferences.

Should the client seek to build more than his immediate requirements, his surveyors will help him let the surplus space, advising him on the complexities of British landlord and tenant legislation. He will also offer to take on the management and long-term maintenance of the property to ensure it retains its investment value over many years. This includes important elements such as energy efficiency, which are best dealt with at the design and construction stage, and suitability for changing needs and uses.

Selected prime industrial rents and rates

	£ per sq ft 1985-86	Annual c/pound rate 1981-85
London		
Croydon	4.80	3.0
Heathrow	5.85	5.8
Park Royal	5.60	3.2
Tower Hamlets	4.60	4.5
Birmingham	3.30	2.5
Bristol	3.60	5.2
Cardiff	2.80	2.0
Edinburgh	3.10	4.7
Glasgow	3.85	3.7
Leeds	3.00	2.8
Manchester	3.35	5.4
Reading	5.70	6.4
Southampton	3.80	5.1

Source: Debenham Tewson and Chinnocks



FRENCH INVESTMENT IN THE MIDLANDS

BY ARTHUR SMITH

How Peugeot found the right track

"THE DECISION by Peugeot, of France, to invest £30m in the UK was taken because the performance of our people justified it." That is the simple explanation given by Mr Geoffrey Whalen, managing director of Peugeot-Talbot UK, as he surveys the new assembly facilities at the Ryton factory, Coventry, where output of the 309 hatchback is being stepped up ready for launch next month.

He says: "Four years ago our quality and productivity were indifferent, but by working as a team, by recreating in our workpeople a feeling of responsibility for the product and for the customers' needs, we have revolutionised our performance."

Indeed, the changes at the Coventry-based company have been dramatic. New work practices have been introduced, productivity has soared and the old image of the city as the home of "the mindless militants of the car industry" cast aside.

The cynical might comment that workers could hardly be expected to be anything other than docile, given the haemorrhage of jobs in recent years. A decade ago Chrysler, the US company that took over the old Rootes group, employed some 30,000 nationwide and well over 4,000 at Ryton alone.

Peugeot, which acquired the UK business from Chrysler for a nominal one US dollar in 1979, closed the Linwood, Scotland, factory and now employs little more than 5,000, concentrated principally at the Ryton assembly plant and the Stoke engine factory, Coventry.

Mr Whalen dismisses such views, pointing to the constructive efforts to get good labour relations and quality. He draws on experience as former personnel director for Leyland cars when it had a workforce of 120,000.

"Capital investment is vital, but what really harmed the British car industry in the 1960s and 70s was its people problem. If you look at our Ryton plant now and talk to the workpeople you will see a new enthusiasm."

Volunteer

He goes on: "When shop-floor workers volunteer to spend their weekends, without extra pay, going out and helping to sell their products to the public it shows how proud they are of their workmanship. This is what is happening at Ryton and it is a mark of how much progress has been made."

Peugeot has adopted an assertive style of management, communicating directly with the workforce through its own supervisory structure rather than through the trade unions.

The tracks at Ryton are stopped for half an hour at least once a month so that the management can give detailed information about production requirements, quality and market performance.

Management is required to give a lead in explaining the reasons and the actions necessary to raise productivity and quality. Newspapers and video presentations supplement the regular briefing sessions.

Mr Whalen argues: "I believe we are proving that British industry can be competitive without having to adopt Japanese habits which are alien to our culture and tradition. The real need is to communicate with employees, to involve them, to give them responsibility and make them feel part of a team seeking a common goal."

Mr Whalen insists it was the quality and productivity delivered by the UK workforce that led Peugeot to commit £30m to modernising British facilities and introducing the new 309 range of cars which will compete in the Escort, Astra. market sector where fleet sales are important.

The British Government made a contribution with £2m of assistance under the Industry Act, also extending the repayment time on an outstanding £28m loan originally given to Chrysler in 1969.

Production at Ryton of the Alpine Solara and Horizon models was halted late last year and output of the 309 started at 750 vehicles a week. The 1,400-strong labour force has been increased by 200, largely through transfers from the Stoke plant, ready for output of 1,000 cars a week from next month

Hope

Depending upon the sales success in Europe of the new car, which is also assembled at Peugeot's Poissy plant in France, Ryton could be called upon to supplement output of left-hand drive vehicles. The hope is that by the summer Ryton could push production close to single shift capacity of around 1,250 cars a week which would create another 200 jobs.

By next year there is the prospect of the introduction of a night shift for the first time for more than a decade and the creation of yet more jobs.

The UK management is seeking support from its French parent to assemble at Ryton a planned new middle-range car, code named the D 60, which would compete against the Montego and Sierra at the heart of the fleet sector.

Continued success by Ryton in delivering quality and efficiency will clearly be important to the decision, which is expected this spring. No investment figure has been revealed for the multi-million pound project but assistance is being sought from the British Government.

Another factor which the French parent must take into account is the preference among fleet purchasers to buy British. The issue is becoming more political with the government putting pressure upon both Ford and General Motors to source more components from the UK.

Mr Whalen maintains that according to the standard measure applied throughout the motor industry the Ryton-assembled 309 is 60 per cent British. Taken with output from Stoke, which is 95 per cent domestic manufacture, the percentage is much higher, he says.

The UK company, whose domestic market share with imports and locally-assembled cars has slipped to little more than 4 per cent, clearly believes it can achieve greater and more rapid penetration with home-produced vehicles. The present target is to hit 8 per cent by the end of 1988.

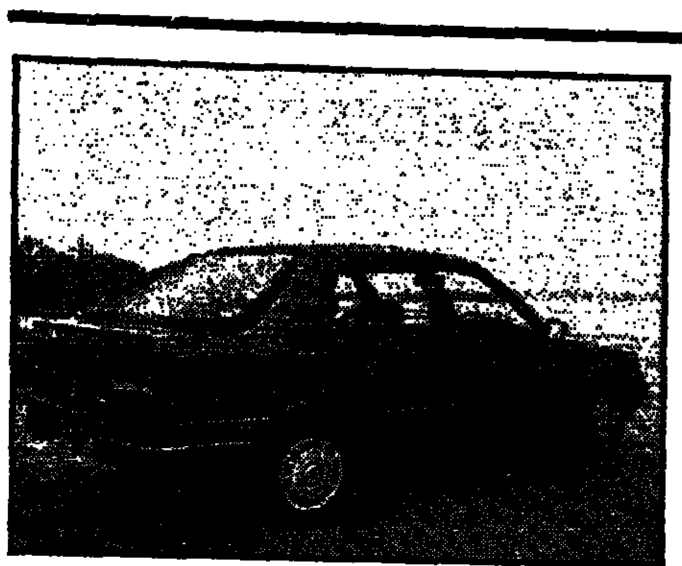
The UK subsidiary also lays claim to one of the motor industry's biggest export deals with the long-running contract to supply kits for assembly in Iran.

The contract has been subject to repeated disruption in recent years because of Iran's foreign exchange problems caused by the war with Iraq and fluctuations in oil prices. Exports to Iran were around £75m in 1984, against the £110m of the previous year but are expected to be sustained at the lower level.
level.

Mr Whalen attributed his company's £13.1m pre-tax losses for the first half of 1985 mainly to lost revenue from Iran. Deliveries were resumed in the second half to give Peugeot Talbot a trading profit, though the company will finish the year in the red.

Mr Whalen maintains that in spite of the uncertainties surrounding the contract with the Iranians it will not affect Peugeot investment in the UK. He says Iran now accounts for less than 20 per cent of turnover and that the Peugeot parent has taken "a fundamental decision" that investment will be based only upon the subsidiary's performance in the UK.

Mr Whalen is looking for further investment and growth for what is the UK's fourth largest car assembler.



Production of the Peugeot 309 hatchback (above) is being stepped up at the Ryton, Coventry, car factory. The UK management is meanwhile seeking support from its French parent group to assemble a planned new middle-range car, code-named the D-60, which would compete against the Montego and Sierra at the heart of the fleet sector

A wide choice of structures

Starting a company

RACHEL DAVIES

FINDING THE right solicitor is vital for those wishing to set up business in the UK.

Having crossed that very important hurdle the next step is to decide what form the business is to take.

The multi-millionaire magnate may wish to enter into a "joint venture" with others to operate an oil field; the immigrant of more modest means may seek to carry on his craft as a "sole trader"; professional people contemplating consultancy may think in terms of a partnership.

But far and away the most usual choice is the limited company, registered under the Companies Acts (now consolidated in the 1985 Act).

There is no restriction as to the nationality of shareholders, and the limited registered company has two great advantages over other corporate or unincorporated bodies: shareholders' liability is limited to the amount unpaid on their shares, and the company has a legal personality separate from that of its members. That means that it can contract, own property, sue or be sued in its own name, without affecting the personal rights and obligations of its members.

It is therefore the ideal vehicle for anyone who is anxious not to render himself over-vulnerable while dipping his toe or plunging into the muddy waters of UK commerce.

The solicitor will draft a "memorandum of association" setting out the objects of the company, and "articles of association" setting out its internal regulations. They will then be filed along with various other documents, including particulars of directors and the company secretary, with the Registrar of Companies.

It takes the Registrar about six weeks to make sure that all registration requirements are satisfied, and he then issues a certificate of incorporation.

Shelf company

If the company is private it will be ready to start business straight away. If it is to be a public company, in that it intends raising money by offering shares to the public, it will have to wait longer, because registration requirements are more stringent (for instance it must have a nominal authorised share capital of at least £50,000) and it cannot operate until the Registrar has issued a certificate to do business as well as the certificate of incorporation.

An alternative and quicker way to get going is to buy a "shelf company."

These are companies (usually private) which have already been registered and are held in stock by solicitors, accountants and company registration agents. They have a name, a registered office, and articles and memorandum, and are all set to start business.

The shopper will look for one whose objects more or less suit his purpose. The name may be somewhat startling, but that can be changed while the company operates, as can the registered office and inappropriate clauses in the memorandum or articles.

So, for speed and sometimes for slightly less cost, the shelf company may be the promoter's choice.

Formation of the company is the easy part. Once it is ready to trade the difficulties begin. Many UK businessmen have problems understanding the intricacies of commercial legal requirements, and the foreign promoter of a UK company is unlikely to be in a better position.

The company will have to be administered in accordance with the Companies Acts, finance may have to be found. Premises may have to be bought, rented or leased—or even built. Patent searches may have to be carried out or government consents and licences obtained.

Book keeping

A new employer will need to understand the law relating to contracts of employment, maternity leave, redundancy, national insurance, pay-as-you-earn taxation. He will have to keep books in accordance with the law, take out insurance, collect and pay value added tax.

Commercial transactions will require an understanding of concepts peculiar to English law. A businessman from a non-English law country may be unfamiliar with the idea of a long lease—or he may not realise that consideration is an essential ingredient of a contract.

From formation onwards the company will need experts—a commercial estate agent perhaps, or an insurance broker, financial adviser, legal adviser, accountant, or patent agent.

The foreign promoter of a UK company would be well-advised to seek out his experts before he embarks on his adventure. And he would be well-advised to get hold of Clifford - Turner's Doing Business in the United Kingdom published by Matthew Bender, which, with the utmost clarity, covers every imaginable aspect of UK business law and practice.

If, however, he does not have the time, the know-how or the inclination to make the right contacts, he can get a package deal. He can go to an "international corporate expansionist" (international consultant for short) which will handle anything or everything for him.

It will advise him, register his company, apply for planning permissions, licences, regional development grants or whatever, or simply put him in touch with all the right people.

The package deal can be invaluable to any company promoter, but it is particularly suitable for someone seeking to operate a vocational line of business who, because of the nature of his profession, is unlikely to have contacts among hard-core men of commerce.

Foreign investments

Investment decisions and associated employment by foreign-owned companies in 1984

Ranking	Country of origin	Number of projects*	Jobs created†	Jobs safeguarded†
1	US	134	16,376	6,651
2	FRG	38	1,138	883
3	Canada	18	300	344
4	Japan	16	6,192	—
5	Rest of World	12	1,638	1,167
5	Irish Republic	12	423	398
7	Sweden	9	201	22
7	Switzerland	9	239	140
9	Netherlands	7	496	189
10	Denmark	5	155	30
10	Finland	5	262	2,859
10	France	5	108	3,258
10	Italy	5	168	—
14	Belgium	4	72	136
15	Hong Kong	3	246	—
15	Norway	3	161	—
	Total	285	28,125	17,991

* Investment decisions (including first-time investment, expansion, takeover and joint ventures).
† Estimate of long-term employment associated with the project: not every decision is accompanied by an employment estimate.

London flagship essential for major groups

Hotels

ARTHUR SANDLES

FIELDS IN which investment demand exceeds opportunity supply are rare enough these days, but such is the London hotel market. Dozens of international hotel groups would like a London flagship, many are actively seeking one, and those that have such a property are either looking for more or seeking further development in the UK provinces.

Since Hilton arrived in the sixties there has been a stampede for space in the UK capital. In recent years Hyatt and Marriott, Novotel and Taj have joined Sheraton and Inter-Continental and Holiday Inn in coming to the city. Hilton, meanwhile, has expanded in London and moved out of the city as has, extensively, Holiday Inn and, more recently, Ramada.

Of course, hotel investments are not as simple as they sound. The management company does not always, or even often, own the fabric of the building and the investors may keep a fairly low profile. Not always, perhaps, as low as they would like. When Regent International Hotels, with Hong Kong and US money, bought the fabric and the management contract for the Dorchester the move was peaceful. When Regent then sold the building, but not the management, to the Sultan of Brunei, the repercussions were considerable.

In London, management companies are frequently willing and sometimes eager to put up some of the long term cash. The reasons for this are not too difficult to trace. Hotels are extremely difficult to find and the deeper you are prepared to dig into your own pocket the more likely you are to find one; at the same time UK investments tend to look fairly secure ones to international hotel groups which often run properties in much less stable economic and political grounds.

At the moment London properties are being sought by such companies as the Air France subsidiary, Meridien, and Holiday Inn, which is already strongly represented but lacks an operation in or near to Mayfair, where the real hotel action is. Both of these will put up their own cash if the opportunity is right.

But is it likely to be? The major hindrance to London development is UK planning procedures, regarded by many foreign investors as too democratic by a long chalk. Local residential objections to further hotel development in such areas as Westminster, Mayfair, Kensington and Chelsea are considerable and central Government has little power to force through something to which a local authority objects (other than "national" projects such as major road systems).

The present UK Government has promised that it will do something to speed up planning procedures, but whether this will mean removing or reducing the present element of local democracy remains to be seen.

In the absence of such changes the prospects for present owners of London properties would seem bright. In 1985 the British capital had the house full notices up as far as four star and de luxe properties were concerned for part at least of the summer season. Few people expect 1986 to be such a spectacular year, thanks partly to the reduced value of the dollar, but even if occupancy fell back to 1984 levels few in the city would be reduced to tears. Historic indications are that almost whatever happens hotel investors can rest secure on their real estate values.

Unfortunately the cost of entering the UK market, either in London or in the provinces, remains high in comparison with many other countries. Building costs tend to be high, land is pricey, planning procedures build in a delay which can lead to interest charges and building regulations and fire precautions are tougher than most hoteliers face elsewhere.

If it were possible to build an hotel in central London the costs would almost certainly exceed £120,000 a room. As a result of this the purchase value of four star and de luxe properties is not far short of this level. The sheer cost of new building is one of the major reasons why so many London hotels are bought and refurbished.

The UK hotel market remains lively, with London a key target for international hotel groups. Above: the entrance to Grosvenor House Hotel in London's fashionable Park Lane.

The scene changes somewhat in provincial centres and areas around London. Here local authorities are often enthusiastic about hotel development, particularly as the new belief in the service industries as a source of employment spreads, and investors are likely to meet encouragement rather than delays from planning officials. At the same time central Government is eager to ease central London's domination of the tourism market in the UK and is encouraging the British Tourist Authority and others to use their marketing powers to steer visitors to other UK destinations.

Coupled with this is the undenied demand of the British domestic travelling public, particularly the business travellers, for a somewhat higher standard of accommodation than once might have been provided. Holiday Inn has certainly found a ready market for its products and domestic companies such as the long-established Trusthouse Forte and relatively newcomers like Ladbroke have struck a profitable vein in provincial urban locations.

There are also signs that further attempts are being made to crack what has long seemed an impenetrable problem in Britain, the provision of new, budget priced, tourist accommodation. THF is experimenting with a series of properties on site it currently uses for its Little Chefs, highway side, family restaurant operations and there are indications that at least two French budget motel operators will be moving into the UK market—local planners permitting.

All in all the UK hotel market is a lively one and one which seems set for success in the foreseeable future. It is also one which national Government and, apart from central London, local authorities, are enthusiastic to encourage. Most foreign investors will point out that patience between idea stage and key-turning may be a necessary virtue, but most of the present hotel owners, facing as they are a queue of buyers eager to enter the race, would say that the wait was worth while.

** Arthur Sandles, FT Travel Editor, completed this article shortly before his sudden death on January 5.*

The great British success story

The Arts

ANTONY THORNCROFT

THIS YEAR the Arts Council, in an attempt to squeeze more money out of the Government for its 1986-87 grant, published a prospectus entitled "The Arts: the Great British Success Story." Few disagreed with its basic thesis that the arts was one area where the UK had been successful in the post-war years.

British actors, playwrights, artists, sculptors, writers have an international reputation; British arts organisations, the National Theatre, the Royal Opera House, the Royal Shakespeare Company, the major orchestras, are assured of large audiences and critical acclaim when they tour abroad. On the surface the arts are in good shape.

But beneath the surface there is seething discontent, a muttering of unrest which links the flagship London-based organisations, like the Royal Opera House and the National Theatre, with the myriad of local arts centres and ethnic performance groups. The cause of this unhappiness is, not surprisingly, money.

According to the Government, the arts have been well treated during its stewardship, with an increase in grant to the Arts Council (the main source of funds for the performing and visual arts) from £61m in 1979-1980 to £136m, just announced, for 1986-87, a rise in real terms of 7 per cent. But this takes no account of the fact that inflation in the arts, a very labour-intensive industry, has risen higher than basic inflation, and of the policy of the Arts Council to redistribute state aid away from London, and the big national companies based there, and towards the regions. Above all, the arts face a cash crisis because of the abolition of the metropolitan councils from next April 1.

The metropolitan councils have been generous supporters of the arts, in particular the Greater London Council. It has been estimated that the met counties spent over £40m a year on the arts, although some of this was more like social welfare. The Government has only given the Arts Council an extra £25m to make good the disappearance of this tier of government. It believes that the remaining tier, the local authorities, should provide the difference.

Unfortunately many of them could well have limitations placed on their spending power under the rate-capping procedure, and although there may be a willingness to make good the shortfall, the practical ability will be absent. Take Sadler's Wells in London: the GLC gave it around £150,000 this year. In addition it advanced £500,000 towards its rebuilding policy.

The Arts Council has already announced that it cannot step into the breach in funding this theatre, and others, such as the Liverpool Empire and the Theatre Royal, Newcastle, which were aided by their local mets. Can the London borough of Islington afford to take on Sadlers Wells? Undoubtedly in the next few months there will be many stories of theatres and arts organisations threatened with at least temporary closure for lack of cash.

The Arts Council has dipped into its reserves, and held back on its regional expansion policy, by giving its 200-odd direct clients an average increase of 4 per cent for 1986-87. Some will get more, some less, but the big batallions, like the National Theatre and the Royal Opera House, should receive 4 per cent more.

This should enable them to keep in business, although the NT was also greatly helped by the GLC, and unless the Arts Council makes good most of that additional aid the NT may be forced to close its Cottesloe stage again in 1986. But, as usual in the arts, cash will probably be found at the last minute to avoid a real crisis.

The Government's response to the complaints of the arts organisations is that they should market themselves more effectively, and get business sponsorship. This has grown from around £600,000 10 years ago to over £20m in 1985 and there seems more potential yet, but no one envisages corporate sponsors ever replacing the Government as the paymaster of the arts. This could only be achieved if the Government gave generous tax incentives to private and public sponsors.

But although the arts might have a real case, and a small rise in government support could bring extra benefits, not least in cutting unemployment, any objective view would suggest a thriving arts scene.

The London commercial theatre is booming (or rather doing better than in the recent past), and theatre attendances nationally, at around 40m, far exceed the crowds for football matches. Concert audiences are buoyant, with the South Bank showing a rise after years of decline, thanks in part to the open foyer policy. Even cinema attendances have started to rise again.

There has been a rush of new theatres opening around the country, most recently in Winchester. Arts centres are popping up everywhere and now introduce 20m people to, if not the more demanding arts, then at least some mind developing experiences. The Arts Council's "Glory of the Garden" strategy has brought the arts to those regions that, in the past, could justifiably feel that they were being starved of culture while London wallowed in abundance.

It is also widely accepted that the regions have a major role to play in a healthy British arts scene. The big four companies —Covent Garden, National Theatre, RSC and the English National Opera—now take a much smaller share of total arts subsidy, and, along with bringing arts to the people by strengthening regional arts associations, the Arts Council has stressed the need for more resources for community and ethnic arts. It also tries to assist the national companies in touring.

The bias has been towards making the arts available rather than creating the conditions for the individual artist to bloom. But there have been plenty of successes in recent years, made to the benefit of the balance of payments. The arts necessarily contain many argumentative and vocal people keen to complain about Government failings, real and imaginary. But somehow the arts continue to flourish; perhaps a little more generosity by the Government could sustain what is undoubtedly a golden age well into the future.

Company service from cradle to maturity

Accountants

CATHERINE HARDY

THE range of services offered by accountants in the UK has grown rapidly, as the pressure on fees and the recession of the early 1980s limited the scope for expansion of traditional audit work.

Mr Nigel Moore of Ernst & Whinney explains, "The opportunity was seen for extending services to client companies, and because an understanding of business is built up during audit work, and as accountants saw the client need for, say, consulting, it made sense to have specialists in-house."

Indeed the Big Eight accountancy firms in Britain employ a whole range of experts. Price Waterhouse is the only Big Eight firm in the UK with more accountants than non- accoountants on its staff.

Coopers and Lybrand has concentrated on growth in consulting and nearly a quarter of its fees come from this still rapidly-growing area, while 20 per cent comes from merger and small business work.

Mr George Westropp at Touche Ross — currently at number seven in the UK in terms of fee income—gives some examples of the extensive literature produced by accountants to show just how well equipped they are to help anyone considering investment in Britain.

To begin with Mr Westropp says "We produce a whole range of publications." For example, "Setting up in the UK for Japanese business" is a recent addition to the list. The publication is presented in both Japanese and English and applies Mr Westropp says, "wherever you come from—whether it is Norway or Singapore. It covers everything you need to know.

"Tax and Investment Profile," from Touche Ross, goes into the business and fiscal details that an incoming investor needs, from the basics of company formation to how to patent a product in the UK.

Mr Nigel Moore agrees that accountants "can offer very much a comprehensive service —a cradle to maturity service." He explains: "We can advise on forming a company, the problems of, for example, VAT registration and PAYE. We can set up books and records, suggest a bank to go to, find premises and even staff."

At Coopers & Lybrand, Mr Peter Howes claims: "We have built-up enormous expertise in trying to interpret investment laws and are well-qualified to advise, whether on investment for say, manufacturing, or a service industry like tourism."

An accountant's specialist knowledge of particular sectors can prove vital. "We pride ourselves on our ability to construct multi-disciplinary teams to advise people. This involves experts in whatever fields are required," he says.

Meanwhile, Mr Westropp states that Touche Ross can offer very specific services. If a construction company in Canada want to set up here, they would be advised by an expert in the British construction industry," he says. The service can also be specific to individuals. Before now, he has even found a client a hotel to stay in during their visit to Britain.